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Task Force on Labour Relations

Study No. 5

Adaptation and Innovation in Wage Payment Systems in Canada

by Jack Chernick

Institute of Management and Labor Relations
Rutgers — The State University
New Brunswick — New Jersey



Privy Council Office
Ottawa



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Task force on
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(under the Privy Council Office)

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JACK CHERNICK

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OTTAWA

JULY 1968

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Although long in Canada and close to it through family and professional interests, we found STUDIES

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TASK FORCE ON LABOUR RELATIONS

almost invariably went unanswered. Although one

is tempted to sacrifice some knowledge for the avoidance of the apparently

unanswerable questions and to believe he can know the ultimate

Study No.

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The studies of the Task Force on Labour Relations represent some of the research carried out under contract. The Task Force members do not necessarily agree with the observations and opinions expressed in these studies.

ACKNOWLEDGMENTS

Although born in Canada and tied to it through family and professional interests, the author would have found it difficult or impossible to perform the present study without the generous help of many Canadians. Requests for information or guidance, whether submitted by mail or in person, almost invariably evoked ready and fullsome responses. Although one is tempted to ascribe such cooperation to the qualities of the investigator, alternative explanations are likely to be closer to the truth: the inherent friendliness of Canadians; interest in the subject matter of the study; high regard for the members of the Task Force; and finally, recognition of the difficulty of its assignment and concern that its objectives be successfully accomplished.

References attached to the report will discharge some of the author's debt. But he would like to thank especially Mr. Keith Cowan of the Economic Council of Canada; Mr. W. H. Wightman and his colleagues in Montreal and Vancouver, all of The Canadian Manufacturers' Association; Mr. John L. Fryer and members of his staff in the Research Department of the Canadian Labour Congress; and Mr. Luther G. Rector and his associates in the Canadian Branch of the Council of Profit-Sharing Industries. Finally, thanks are due to numerous officials of government in Ottawa and in provincial capitals for supplying statistical information, some of which was not available in published form.

At the risk of shattering the impression conveyed in the foregoing, it is necessary to record a single devastating blow suffered in the course of the search for data. An inquiry laboriously fashioned in

the author's most impeccable French evoked a response in which it was delicately suggested that rephrasing in English would facilitate meeting the request.

Dr. Georgina Smith, a colleague in the Research Section read an earlier draft of the study and made many helpful suggestions for change. Needless to say the author alone is responsible for any remaining shortcomings in the study.

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CHAPTER I

INTRODUCTION

Purpose of the Study

The mechanisms, practices, and content of compensation for labour services have come under increasing scrutiny since the end of World War II. The reason is that the major developments in economic policy and institutions which characterize the period sooner or later are constrained by or exert an influence on traditional compensation principles and practice. To mention only the most prominent tendencies: government economic policy which seeks to promote a high rate of growth under conditions of reasonably stable price levels confronts the interrelations between wage levels, prices, and productivity as these are worked out in the private sector; advances in technology affect the character of production, the mix of labour and capital inputs, the terms on which labour compensation is related to output, and internal plant wage structures; finally, the goals of unions, their policies and tactics in collective bargaining have repercussions on the stability of wage levels and on the content of compensation.

Obviously this study cannot treat in any depth all of the issues raised; but all of them are relevant to its central purpose. This is to examine the adaptations, modifications, and innovations in wage payment systems which employers and unions have effected in response to economic pressures of the post-war period. Employers have attempted to fashion wage payment devices which maximize returns to payroll expenditures. Unions seek to enforce conditions of payment which at once yield the largest obtainable returns in income and minimize the consequences of reduction

in the demand for labour. Under competitive pressures, both domestic and foreign, employers pursue lower costs of production by substituting machines for labour; and the same pressures lead them to search for methods of ensuring increased productivity of labour by incorporating various incentive elements in the wage payment system. To be sure, all wage systems imply the offer of a money incentive in exchange for a unit of labour services. But difficulties inherent in measuring the amount of work implied in an hour's labour and alternative theories of the relationship between monetary incentives and the energy applied to work have produced a wide variety of arrangements governing exchange in the labour market.

The intent of the study is to explore the more important of these wage payment devices as they have evolved in Canada; in the context of the labour market problems, the institutions and the approaches to solutions that are characteristic of that nation. Inevitably, however, given the close ties at the level of both the corporate employer and the international union, we shall have occasion to compare parallel tendencies in Canada and the United States.

In both countries there has been a vast preoccupation with trends in productivity. The Economic Council of Canada stresses the universal concern for higher rates of productivity and uses the United States as a benchmark in affirming the importance of increasing productivity:

It is in the interest of all Canadians—workers, management, and other groups—to encourage policies and actions designed to narrow the underlying productivity gap.... [This] would make possible a narrowing of the present disparities in real income and earnings between the two countries....

... [This has] an important bearing on the matter of 'wage parity' which is now being prominently discussed in Canada. A narrowing in real income differences between the two countries is a desirable longer-term objective, but an early and widespread pattern of money income parity in manufacturing would undoubtedly create serious problems. 1/

The Economic Council goes on to warn against attempts to accomplish "a widespread pattern of wage parity with the United States in manufacturing without achieving a similar pattern of productivity parity". 2/

Similar strictures are advanced by Lithwick 3/, whose "analysis reveals that manufacturing productivity in the United States is 29.8 per cent higher than in Canada." He voices concern for the failure of Canadian productivity to grow at a faster rate and suggests the following reasons for the lag behind the United States in both absolute and relative performance over the past decade:

... orientation in the United States towards investing in research and development and embodying technical advances in their capital stock. In addition, the United States has cashed in on the high returns to investment in human capital. Canada's almost exclusive concern with physical capital and its reliance on imported technology do not appear to have had as high a productivity pay-off. In addition, Canada would do well to focus on the other major sources of inefficiency in its economy, including tariffs, industrial organization, and immobility of resources, all of which affect the level, and possibly the slope, of our growth path. 4/

No one is likely to quarrel with the position that the groups referred to in the above quotation from the Fourth Annual Review are interested in a higher rate of productivity growth. The question is: What do these groups perceive as relevant roles for themselves in contributing to the accomplishment of this goal? More precisely, what does organized labour take to be the economic basis for growth in productivity and the consequent role of collective bargaining? By what means is productivity

increased, in the perceptions of employers? Are monetary incentive systems of one form or another capable of exerting an influence on workers so as to raise the rate of productivity growth?

A balanced and sustained rate of growth requires an amalgam of public and private economic policies. Given the supply of resources, public policies focus on assuring a sustained aggregate demand including support for private investment in capital goods and in research and development; and a balanced meshing of resource flows. The success of such public policies depends on the interplay between them and the private decisions they affect. The interest of the present study resides in the nature and scope of private arrangements at the level of the firm which have a bearing on rates of increase in productivity. And within the scope of such policies our focus is on those which operate through wage payment mechanisms.

The purpose of the present study, more specifically, is to describe in broad strokes the major prevailing forms of incentive compensation arrangements in light of their prevalence or prospect in Canada; to assess the impact of collective bargaining on incentive pay systems; and to explore the implications for collective bargaining of the new developments in productivity and profit-sharing plans. The prospects in respect to wage payment systems will be judged in light of respective goals and interests of employees, unions, and management. Finally, an attempt will be made to explore the economic implications of alternative devices, including their effects on costs and income distribution.

Plan of the Report

In Chapter II we shall discuss the wage incentive schemes which have traditionally been used in an effort to induce maximum output, and consider the impact on such arrangements of the accelerated post-war changes in technology. In one rather prominent instance, the circumstances and terms of withdrawal of a wage incentive plan in Canada will be described.

Collective bargaining has enlarged the scope of worker compensation by incorporating a wide range of nonwage forms of compensation in the collective agreement. Some of these are simple trade-offs for compensation in the form of "pay in the envelope". Thus, an employer obligation to pay five cents per hour into a fund to be drawn on as a source of supplementary unemployment benefits by laid-off workers is, in effect, a redistribution of a portion of the wage bill as between workers who do and workers who do not experience lay-offs. On the other hand, in recent years collective bargaining has produced agreements which exchange additional earnings for union cooperation in reducing costs through improvements in methods, savings in the use of material, and in reducing wastage in the form of scrap. The incentive feature of such plans is obvious where the size of additional earnings is made contingent on the size of cost reductions or productivity increases. Chapter III will be devoted to an analysis of such plans.

In Chapters IV and V the discussion will focus on profit-sharing. An incentive system with a long history, profit-sharing provides for some distribution of company profits among employees usually in accordance with a predetermined formula. The spread of this technique has been marked in

the United States in recent years and has evoked growing interest in Canada. The major characteristics of profit-sharing plans will be described and available statistics recording the proliferation of such plans in the United States and Canada will be presented in Chapter IV.

While largely outside of collective bargaining and considered by some advocates as a substitute for it, profit-sharing proposals have recurred as a theme in union-management negotiations and, more recently, have been advanced as worthy of consideration in fashioning a national incomes policy. Profit-sharing advocates range from those who see it as an incentive technique at the level of the plant to those who regard it as promising a fundamental alteration in the basis on which workers earn their incomes. Chapter V will discuss these views as well as the evolution of union attitudes towards profit-sharing and the prospects of extension of plans through collective bargaining.

Interest in profit-sharing in Western Europe has grown with the effort of the government of France to introduce the practice under some compulsion into the French economy. The significance of this legislation will be examined briefly.

A final chapter will summarize the findings of the study and offer some concluding comments. In particular, the prospects for extension of the several wage payment plans in the Canadian economy will be assessed.

REFERENCES

- 1/ Economic Council of Canada, The Canadian Economy from the 1960's to the 1970's, Fourth Annual Review, September, 1967, p. 166.
- 2/ Ibid., p. 167.
- 3/ N. H. Lithwick, Prices, Productivity, and Canada's Competitive Position, The Canadian Trade Committee, Private Planning Association of Canada, September, 1967, p. 10.
- 4/ Ibid., p. 18.

CHAPTER II

INCENTIVES IN COMPENSATION SYSTEMS

In a private enterprise system the optimum rate of productivity advance is presumed to emerge from the private actions of individuals motivated by personal interest in maximizing their returns as workers, as owners of capital, and as managers. The function of government is to ensure a stable monetary framework in which these private actions occur and to foster, through appropriate supportive programs, smooth adaptation to change in the allocation of labour resources.

In a market economy differential wage rate and earnings opportunities express the incentives which guide workers in the selection of occupations and the choice of a given job among alternatives available. But once on the job, the pace of work, the energies applied, and the productivity of labour, are not uniform and rigidly fixed elements. Based on the assumption that the worker's potential is rarely tapped to its fullest extent and on the further conviction that if monetary incentives induce individuals to work in the first instance, then a supplementary incentive mechanism will induce greater productivity—the premises of scientific management—employers have for many years experimented with and contrived a variety of incentive wage and income schemes. Also, under the influence of behavioural theory, and research based on it, programs have been introduced which combined restructuring of the work environment with appropriate adaptations in wage payment methods.

Among the large variety of incentive arrangements some typical approaches will be discussed in this and the following chapter. Where

data are available we shall be concerned with the application of such incentive plans in Canada.

Individual and Small Group Incentive Plans

Under individual incentive plans compensation is based on output. A straight piece-work arrangement provides that the worker is paid per piece produced. Usually there is a minimum earnings guarantee for the job. A change in rate of pay frequently requires recalculation of piece rates. To avoid this procedure, which may be disruptive in production departments entailing a large variety of outputs, many firms utilize the standard hour plan. In this modification of the piece-rate system a unit of output is equated with the standard time required to produce it. The standard hour, which carries a specified occupational rate, is defined as the number of units which can be produced in one hour by the average worker under normal conditions. The standard may provide, for example, that each unit produced has a time value of ten minutes. Thus, the worker is paid for an hour at the occupational rate for every six units produced, even though they required only, say, 50 minutes to produce.

More complex systems provide for variations in compensation at higher levels of output according to formulas which yield variable proportions of increased pay for output above a specified standard.

A priori, it might be imagined that such incentive pay systems incorporated the necessary motivation to enhanced productivity. Indeed, it is possible to demonstrate in a variety of production conditions that the introduction of incentive plans provides dramatic increases in productivity.

Nevertheless, there has been widespread dissatisfaction with their operation, largely because of built-in problems of adjustment of standards as processes and equipment change. But studies in this field reveal the existence of a variety of conflicting tendencies. While the major effect of technological change is to exert an influence opposing the validity and hence the continuation of wage incentive plans, it is also responsible for some extension of coverage. Thus, in the post-war period there have been the simultaneous currents of abandonment of wage incentive plans for some form of measured daywork and the extension of plans to cover a larger proportion of the work force in plants which use the system; and according to some students, there continue to be successful operations of some incentive plans in the post-war period.

The union position on the issue is divided. Starting from a philosophy which was largely suspicious and antagonistic, some unions came to support wage incentive methods as offering advantages to their members; others, winning collective bargaining rights in units where the practice was deeply ingrained, attempted to make the best of it. They sought to develop their own expertise in challenging standard-setting by management. In some cases, work restriction under incentive plans—beating the system—became the rule, and along with vigorous challenges over every aspect of standards change, combined to produce loose standards, an inequitable wage structure, and ultimately led to the "demoralization" of existing incentive plans. The opportunities afforded by such plans to enhance earnings, however, produced the anomaly of unions opposing incentive plans when they are introduced and then resisting efforts to shift to a daywork system.

The issue, as it relates to the primary interest of the present study, is the flexibility with which management can adjust to more efficient

processes and equipment. A daywork system enlarges the scope for changes without evoking the resistance of employees on grounds of suspected injury to earnings opportunities. However, some union spokesmen have charged that in the daywork system some managements "are attempting to get the benefits of an incentive pace of operations at daywork rates". 1/

The Coverage of Wage Incentive Plans

Canadian industry has experienced a rapid rate of mechanization in the decade of the sixties and the long-run prospect is for continued heavy investment in new equipment. It is widely held, although the view is not universal, that the more mechanized the production process the less applicable are wage incentive payment methods. 2/ Under complete automation, it seems clear, measurement of output, and production standards as related to individuals or small groups of workers, lose their meaning and it becomes unreasonable to tie their earnings to output. How important and extensive will be the adjustment to new conditions of mechanization in Canada depends in part on how widespread is the utilization of wage incentive schemes.

Ideally, one would wish to compare the trend in the use of wage incentive methods over, say, the past decade, but statistics for Canada are unavailable. However, by virtue of a special compilation supplied by the Economics and Research Branch of the Canada Department of Labour, the distribution by industry of employees paid on an incentive basis can be presented for 1966. At the same time, a rather gross comparison can be made between these data and a similar distribution by industry in the United States, based on surveys conducted in 1958. That the comparison is gross will be clear from the difference in time periods compared 3/;

from the fact that while the United States survey covers production workers, the Canadian statistics are for "non-office employees" in the firms reporting 4/; and, finally, because industry groups can only be matched in gross terms.

The comparison in Table 1 shows that incentive pay is, by and large, diffused among manufacturing industries in roughly similar patterns in the two countries. There are, however, some outstanding cases in which coverage is lower in Canada than in the United States; in primary steel and fabricated metals the discrepancies in proportions of workers paid on an incentive basis are particularly striking. Smaller, but nevertheless potentially significant differences in the same direction, appear in some other industry groups. These include leather goods, paper products, transportation equipment, and electrical products. This same difference can also be seen in the apparel industries. On the other hand, only in cotton textiles and agricultural machinery do the Canadian data show a significantly larger proportion of workers paid on an incentive basis.

To account for these similarities and differences in the proportions of workers paid on an incentive basis would require a further study, industry by industry, covering a host of other important variables. Such data are not, however, available.

At the very least, it does seem safe to say that, overall, the use of wage incentive payment plans is lower in Canada than the United States. This allows us to conclude in a corollary fashion that if there is validity in the hypothesis that with increased technology there will be a decrease in wage incentive plans, then the importance and extent of

TABLE I

NUMBER AND PER CENT OF WORKERS PAID ON AN INCENTIVE BASIS IN SELECTED MANUFACTURING INDUSTRY GROUPS

CANADA AND UNITED STATES

		Canada		United States		(Production Workers)		Subsequent Studies	
	(Non Office Employees)*	1966	Per Cent Paid on Incentive Basis	1958	Per Cent Paid on Incentive Basis	Number (in Thousands)	Year of Study	Per Cent Paid on Incentive Basis	
Food & Kindred Products	—	—	—	—	—	—	—	—	
Meat Products	18.9	10.1	238.6	18	1963	25	25		
Meat Packing	—	—	—	—	1963	30	30		
Prepared Meat Products	—	—	—	—	1963	8	8		
Canning	33.7	12.8	141.1	12	—	—	—		
Grain Mill Products	—	—	78.4	7	—	—	—		
Flour Milling	2.3	0.0	—	—	1961	—	**		
(Breakfast cereals, Bakeries, etc.)	39.3	6.6	164.2	5	—	—	—		
Beverages	15.8	1.4	111.8	5	—	—	—		
Tobacco Manufactures	5.5	4.9	—	—	—	—	—		
Cigarettes	—	—	31.1	3	1965	**	57		
Cigars	—	—	27.0	66	1967	—	—		
Leather	16.4	45.4	—	—	—	—	—		
Tanned, Curried & Finished	—	—	33.0	51	—	—	—		
Footwear (except Rubber)	—	—	205.4	70	1965	71	—		
Handbags & Small Leather Goods	—	—	20.8	15	—	—	—		

* Employees paid on mileage or commission basis have been deducted.

** Virtually none

TABLE 1 (Continued)

	United States		(Production Workers)			Subsequent Studies		
	1966	1958	Number (in Thousands)	Per Cent Paid on Incentive Basis	Number (in Thousands)	Per Cent Paid on Incentive Basis	Year of Study	Per Cent Paid on Incentive Basis
Textiles	—	—	—	—	—	—	—	—
Cotton	15.1	54.9	353.0	—	36	—	—	—
Wool	6.5	34.3	58.9	—	—	—	—	34
Synthetic	14.8	15.3	88.3	—	—	—	—	—
Knitting, Hosiery, Misc.	27.1	33.4	183.0	64	—	—	—	—
Apparel	52.8	49.2	—	—	—	—	—	—
Men's	22.6	54.8	—	—	—	—	—	—
Women's	19.6	49.2	—	—	—	—	—	—
Children's	3.9	38.0	—	—	—	—	—	—
Men's and Boys' Clothing	—	—	370.3	—	71	63	—	—
Women's outerwear	—	—	292.1	—	—	—	—	—
Women's and Children's Under-garments	—	—	—	—	97.7	52	—	—
Children's Outerwear	—	—	—	—	62.0	48	—	—
Misc. Apparel & Accessories	—	—	—	—	47.8	50	—	—
Other Fabricated Textiles	—	—	—	—	96.8	23	—	—
Wood Products & Furniture	73.7	11.9	—	—	—	—	—	—
Sawmill & Planing Mills	—	—	279.7	—	—	5	—	—
Millwork, Plywood, & Prefab. Wood Products	—	—	—	—	101.6	7	—	—
Household Furniture	—	—	—	—	208.4	25	—	—
Paper Products	77.4	3.9	116.1	20	—	—	—	—

* Employees paid on mileage or commission basis have been deducted.

TABLE 1 (Continued)

		United States		(Production Workers) Subsequent Studies	
		1966	1958	Per Cent Paid on Incentive Basis	Year of Study
	Canada	Number (in Thousands)	Number (in Thousands)	Per Cent Paid on Incentive Basis	Per Cent Paid on Incentive Basis
Printing, Publishing & Allied Industries	30.5	2.4	—	—	—
Newspapers	—	—	157.4	7	—
Commercial Printing	—	—	175.7	1	—
Iron and Steel Products	—	—	—	—	—
Primary Blast Furnaces, Steelworks, and Rolling Mills	78.3	17.3	—	—	—
Iron and Steel Foundries	—	—	408.3	60	1962
Metal Fabricating	68.8	11.0	159.8	27	—
Cutlery, Handtools & Hardware	—	—	—	—	65
Heating Apparatus & Plumbers' Supplies	—	—	93.4	44	—
Fab. Structural Metal Prod.	—	—	80.3	21	—
Metal Stamping, Coating & Engraving	—	—	214.8	14	—
Misc. Fab. Metal Products	—	—	158.3	22	—
Machinery - Agricultural	10.5	43.9	89.0	18	—
			95.2	32	—

* Employees paid on mileage or commission basis have been deducted.

TABLE 1 (Continued)

	Canada		United States		(Production Workers) Subsequent Studies
	1966 (Non Office Employees)*	1958	1966 Per Cent Paid on Incentive Basis	1958 Per Cent Paid on Incentive Basis	
	Number (In Thousands)	Number (In Thousands)	Number (In Thousands)	Per Cent Paid on Incentive Basis	Per Cent Paid on Incentive Basis
Transportation Equipment	—	—	—	—	—
Aircraft	18.9	0.0	467.7	4	—
Motor Vehicles & Trucks	22.4	1.9	716.8	15	—
Motor Vehicles	—	—	—	2	1963
Motor Vehicle Parts	—	—	—	28	1963
Ships	15.4	0.8	123.6	20	31
Electrical Machinery and Other Prod.	67.5	17.2	—	—	—
Generating, Transmission & Similar Apparatus	—	—	239.6	38	—

* Employees paid on mileage or commission basis have been deducted.

Sources: The Canadian data are based on special compilations drawn from the Survey of Wage and Salary Rates, 1966, a survey performed annually by the Canada Department of Labour. The United States data are from L. Earl Lewis, "Extent of Incentive Pay in Manufacturing", Monthly Labor Review, May, 1960. More recent information shown for selected industries is derived from industrial wage surveys conducted by the Bureau of Labor Statistics in the years designated.

the adjustments to new conditions of mechanization in Canada will be less serious than that in the United States. However, the available statistics do not show evidence of reduction in the proportion of employees paid on an incentive basis during the post-World War II period when expansion in machine technology occurred at a rapid pace. Lewis found the proportion unchanged between 1945-46 and 1958 when he compared the same industry groups.^{5/} Nor can one detect any marked change in the coverage of incentive plans when one compares the studies of 1958 with the small number of later investigations for which data are shown in Table 1. From these data, all we can say is that in a period of rapidly expanding mechanization of work the proportion of workers covered by incentive wage payments has remained fairly constant.

Apart from the trend data it is interesting to note that the overall Canadian figure for the proportion of workers paid some form of incentive wage is 16 per cent. This, of course, is much lower than the proportion covered in the United States—30 per cent in 1958.

Again, along lines somewhat independent of the previous discussion but deserving of mention are two comments with respect to incentive payments in Canada. The first concerns the relationship between incentive payments and the presence or absence of collective agreements; the second is on the regional concentration of incentive payment plans.

Although no comparative data on the relationship between the proportion of workers on incentive payment and the presence or absence of a collective agreement were available for the United States, Table 2 shows that for Canada there is little difference in the proportions under incentive plans as between firms in which employees are or are not covered by a collective agreement.

TABLE 2

PROPORTION OF WORKERS IN DURABLE AND NON-DURABLE
MANUFACTURING COVERED BY INCENTIVE PAYMENTS, BY
PRESENCE OR ABSENCE OF A COLLECTIVE AGREEMENT

Canada, 1966

	<u>Collective Agreement</u>	<u>No Collective Agreement</u>
Durable Manufacturing	13.8	10.8
Non-Durable Manufacturing	19.2	19.7

The significant difference is obviously associated with the type of industry and not with the existence of a collective agreement. The details in Table 1 elaborate these industry differences.

One final point of interest on the prevalence of incentive payments in Canada is to note some concentration in Quebec and Ontario. Table 3 highlights this point.

TABLE 3

PROPORTION OF WORKERS COVERED BY TYPES OF
INCENTIVE PAYMENTS IN QUEBEC, ONTARIO AND
ALL OTHER AREAS OF CANADA, 1966

	<u>Per cent all Workers</u>	<u>Per cent on Piece Work</u>	<u>Per cent on Bonus</u>
Quebec	28.4	38.8	25.9
Ontario	43.3	45.9	58.9
British Columbia	9.8	2.7	5.5
All Other Provinces	<u>18.5</u>	<u>12.6</u>	<u>9.7</u>
TOTAL	100.0	100.0	100.0

Conversion From Incentives to Daywork
Pay at Canadian Westinghouse 6/

Because it typifies the process by which a wage incentive system becomes demoralized and the problems surrounding its abandonment, we describe in some detail the conversion to daywork in the plants of the Canadian Westinghouse Company. The conversion resulted from an agreement between the company and a local union of the United Electrical Workers.

The company's operations in Hamilton, Ontario, cover three plant locations containing 14 product divisions. In 1961, these manufacturing units ranged from job-shop operations to largely automated processes for work that was repetitive and for which the output units were identical. All of these came under the terms of one collective agreement which included a provision for city-wide seniority.

In 1947, the incentive article in the agreement consisted of less than one page; in 1961 it took 14 pages of intricate and restrictive language, the product of bargaining over issues growing out of attempts of the company to get rid of loose standards under the incentive system.

For each concession wrested by the company from the union, the quid pro quo was a set of guarantees conceded by the company to the union defining the terms, conditions and circumstances under which time standards could be made accurate....

It is perhaps not too strong a statement to say that the system bred a form of immorality in that a game of cunning ensued in which industrial engineers, under pressure for cost reduction, sought disproportionate and illegal reduction in time values....

At the same time, employees and their union representatives maintained a kind of audit over methods changes, disputing every reduced time value. The foreman found himself generally in the middle....]/

Administration of the incentive clauses ultimately led to the formation of a core of union incentive grievance specialists recognized by the collective agreement. In the view of the company, it might have continued to live with these "less than amicable relations" but:

The company could not continue to live with the restricted opportunity to improve productivity under a system which often, not only made capital investments only marginally attractive, but sometimes even placed a penalty on manufacturing innovations and technological change. 8/

Entering negotiations with the union in early 1961 for a renewal of the existing agreement, the company demanded elimination of incentives in the job-shop units on the ground that measurement of performance in those operations was all but impossible. But in the course of bargaining, to the surprise of the company negotiator, the union made the counter proposal that incentives be eliminated across the board in all manufacturing operations. This became the new basis for bargaining, necessitating settlement of the terms on which incentive-rated jobs would be integrated into a city-wide wage-rate structure based on evaluated job classifications.

In the negotiations the company stated that it was not its intention to reduce the total wage bill in converting to daywork. This entailed the guarantee that average earnings of the affected employees would be maintained. Rates assigned to the jobs of incentive workers were based on a study of the employee's earnings in the highest of three periods prior to the negotiations. But incorporation of the change from incentives to day-work required provision for the shifting of employees from one job to another and for assignment of rates to new hires. The result was that the company ended up with four rates of pay for each converted incentive job, and, during

the transition period, it was not uncommon to find all of them in application to the incumbents of one job. The four rates were:

- 1) An Evaluated Job Rate. The rate which the job was ultimately to carry in line with its evaluation in reference to the job structure in the several plants.
- 2) The Converted Incentive Rate. This rate applies to newly-hired employees or to daywork employees who transfer to converted incentive jobs. At the time of the negotiations the average differential between incentive and dayworker earnings on jobs of approximately similar content was about \$0.30 per hour. Because it did not seem very realistic to pay newly-hired employees in converted jobs at the daywork or evaluated rate, particularly when they would be expected to maintain the same pace of productivity as former incentive employees, whose former incentive earnings were guaranteed, the converted incentive rate was established at a level somewhat lower than the rate that applied to workers who had been on incentives prior to the change, but higher than the evaluated rate. It was derived by multiplying the minimum incentive base rate by 125 per cent rather than by 146 per cent, which was the common average incentive multiplier.
- 3) Occupational Average Rates. These are red-circle rates which apply when former incentive employees with personal red-circle rates transfer to other converted incentive jobs. And, finally,
- 4) Personal Rates of Employees on Incentive Jobs. These are based on incentive earnings history and are retained, with some exceptions, as long as an employee remains on the former incentive job.

It is clear that the old incentive-rated jobs had to be meshed into the new single wage structure. The company, taking a stand against a joint evaluation system, finally accepted a compromise clause which permitted the union to appeal company determinations on evaluation and slotting. Under this procedure, non-incentive employees filed 495 claims of improper labour grade ranking as of May 1963. Ultimately, 12 were arbitrated and the company won 10 of these, while the union finally dropped 383 claims. Employees in converted incentive jobs had filed 304 claims of error in grading, of which, at the time of this report (May 1963), 117 had been dropped by the union and the remaining ones were still under discussion.

At the date of the settlement on October 20, 1961, there were 1,700 cases of red-circle rates. As of May 1963, the number of cases of red-circle rates had dropped to less than 1,200. When the incentive system was abandoned 67.4 per cent of the work force had red-circle rates or were paid in excess of the wage called for by evaluation. In May 1963, only 34.8 per cent of the employees had red-circle rates, an attrition of 22.6 per cent in 18 months. Officials of the company informed the writer that by the summer of 1967 the proportion had dropped to something over 20 per cent.

The company reports that in discussions with operations managers prior to the agreement strong opposition to the elimination of incentives was encountered. Some flat predictions were made that within the first year of conversion to daywork, productivity would drop 20 per cent. This, according to company sources, did not materialize.

Plant-wide Incentives

The Canadian Westinghouse-United Electrical Workers negotiations and settlement have been repeated in many other cases described in the

literature. 9/ But it should not be inferred that collective bargaining alone is responsible for demoralization of wage incentive plans. Livernash suggests that management policy is also relevant:

Investigation into the relative operating success of incentive plans reveals variation in management policy and practice, union policy and practice, the character of union-management relations, and employee attitudes. Severe demoralization typically involves not only poor union-management relations and a high rate of grievances over standards, but more importantly a behavior pattern of wildcat strikes and slow-downs. Under such conditions management loses control of standards. Engineered standards are grossly distorted by an extreme degree of bargaining standards. 10/

But whatever the background, workers do build up a vested interest in practices that yield a high level of incentive earnings and will not relinquish them without a quid pro quo. Sometimes the quid pro quo is the shift to a plant-wide or large group incentive plan. The Kaiser plan, for example, embodies an arrangement under which incentive workers may shift to the plant-wide productivity-sharing incentive plan, with the company buying out their interest by a lump sum payment. The Kaiser plan, along with other varieties of large group productivity-sharing plans, will be discussed in the chapter that follows.

Salaried Status for Production Workers

Before turning to the large group incentive plans, we discuss briefly an alternative approach which is receiving some attention. This seeks to accomplish an increase in motivation by imposing responsibility for performance on the employee through changing the basis of payment from the hour to the week. In the union movement the United Automobile Workers (UAW) have been most prominent in proposing such a transformation of the

basis of payment in the automobile industry. The position of the UAW will be reviewed; we shall then elaborate the details of one such instance of change in Canada.

The shift from an hourly to a salaried basis of compensation for production workers would appear to be an innovation tending to support greater flexibility in the utilization of labour, at the price of an increase in fixed payroll cost. However, it cannot be argued that an increase in flexibility was the purpose of the UAW in pressing for the change. The UAW, which championed an annual wage guarantee and settled for Supplemental Unemployment Benefits (SUB) in 1955, sought to accomplish the weekly salary in 1967. The demand was introduced in heroic terms:

The bell is tolling in American industry for the undemocratic, inequitable and obsolete hourly wage system, for the economic insecurity it inflicts on wage earners and their families, and for the invidious distinction it creates as between categories of workers...

We are asking General Motors to erase once and for all the distinction between hourly-rated and salaried workers. 11/

The UAW found support for the principle in the report of the National Commission on Technology, Automation, and Economic Progress.

Whatever the initial logic, [in paying production workers by the piece or the hour while white-collar workers are paid by the week, month or year] the time may be near to end an invidious distinction which has denied workers a sense of full participation in the social enterprise. What once may have been difficult is today more manageable. In the emerging economy, the majority of workers are in service and white-collar jobs, and the relative number of blue-collar workers is declining. In the changing nature of work, it is more and more difficult to measure the contribution of the single worker in the productive process, and the concept of

'the piece' or 'the hour' loses meaning where work is a team affair and production processes are continuous....

We believe, therefore, that industry and unions should begin to discuss the question of paying all workers by the same standard, and of extending to blue-collar employees the usual prerogatives (sick time, jury duty, funeral leave) which most salaried employees enjoy today. 12/

In effect, the unions' demand was a return to the earlier effort to secure an annual guarantee. The union proposed:

...that General Motors agree to a program under which the worker, if he is not provided with work, will continue to receive enough income, including that derived from SUB and Unemployment Compensation, to maintain his normal living standard for a period of time graduated according to his length of service, up to a full year.

Income would continue, even if actual employment were not forthcoming. 13/

Actually, what the union had in mind was a month-to-month guarantee:

Under the UAW proposal, if the worker were on salary at the beginning of a month, he would receive full salary for that entire month. If called in at any time during the month, he would receive his salary for the rest of that month and all of the following month. 14/

While the results of bargaining in the automobile industry in the final months of 1967 failed to include adoption of the principle of salary status as such for blue-collar workers, the union was able to hail the guaranteed annual income plan in the settlement with the Ford Motor Company as "an historic milestone". The compensation features of salary status received recognition through enlargement of the supplemental unemployment benefit plan in both the size and the duration of benefits.

The weekly benefit for full weeks of unemployment was increased to 95 per cent of after-tax pay, less \$7.50 saved by not working, and by raising the benefit for a scheduled or unscheduled short workweek to 80 per cent of gross pay. Formerly, the amounts guaranteed by SUB were 62½ per cent for a full week's layoff, 75 per cent for an unscheduled short workweek, and 50 per cent for a scheduled short workweek. 15/

The duration of benefits has been extended so as to accomplish in large measure the union's goal of a long-term income guaranteed. Agreements with the major automobile firms provide for a guaranteed annual income credit plan which builds supplemental unemployment benefits giving regular employees with seven or more years seniority, 95 per cent of regular income 52 weeks a year, after deducting \$7.50 a week (presumed savings in carfare and lunches when not working). For employees with lesser seniority a sliding scale provides at the lower end for 31 weeks of benefits for those with more than one but less than two years of seniority. The plan becomes effective December 1968; the delay was intended presumably to permit a build-up of the SUB fund out of which these benefits are to be paid.

In an agreement with the Caterpillar Tractor Company, the UAW came closer to accomplishing the goal of salary status for its members. This agreement provides that an employee with one year of seniority is guaranteed 100 per cent of his weekly straight-time pay for each week during any month in which he is scheduled to work on the first Monday of the month. If he is to be laid off he must be notified on or before the last Monday of the preceding month. If laid off, an employee is guaranteed 100 per cent of take-home pay for an additional three to seven weeks

depending on seniority. If lay-off lasts beyond the guarantee period, an employee is entitled to 85 per cent of take-home pay for up to one year. 16/

The UAW efforts to achieve for its members the dignity of salary status has not been widely repeated in the bargaining objectives of the major trade unions. There has, however, been some movement in the United States toward giving blue-collar workers the status of salaried employees. In a National Industrial Conference Board survey of 1,834 firms in manufacturing, about 7 per cent, or 138 companies, indicated that at least some of their blue-collar workers are salaried. 17/ Fairly detailed information from 85 of these firms is summarized as follows: only 15 companies have their entire blue-collar work force on salary; most companies have granted salary status only to specific occupational groups like technicians, working foremen, and warehouse and stockroom employees.

Most of the salaried blue-collar workers are in technical or experimental production jobs that require frequent close contact with professional engineers or other white-collar employees. Companies report that this was one of the reasons for putting blue-collar employees on salary.

Salary status has been given for the most part only to non-union employees. Among the reasons for introducing the innovation, companies cited the expectation that salary status would keep these employees out of existing or potential bargaining units. In the whole group, only five companies had changed employees who already belonged to bargaining units over to salary status.

Apparently the workers have not abused the sick-leave-with-pay privilege that is granted to salaried workers. But, even so, in most companies additional costs are involved in extending the sick-leave privilege beyond the one or two-day absences which was the rule at the time of the change.

Again, in the absence of a similar nation-wide survey it is not possible to compare the relative spread of salary plans for blue-collar workers in Canada. However, details with respect to one case are available and will be presented as typical of the considerations surrounding the decision to transfer unionized blue-collar workers to salary status. The case concerns the Kingston, Ontario plant of the Aluminum Company of Canada.

In an agreement with two local unions (belonging respectively to the United Steel Workers and the International Association of Machinists), a weekly pay system was installed in the company's Kingston works in October 1966. It was provided that plant employees (who numbered approximately 1,500 in 1962) would receive a full week's pay when absent because of sickness or other justifiable reasons for a period ranging up to 52 weeks, depending on length of service. The weekly salary provisions do not apply when a reduction of work force is necessary. Shift premium and overtime pay continue as under the hourly pay system.

The formula for paid absences runs as follows: service over 90 days and up to two years—four weeks; service over two years and up to five years—13 weeks; service over five years and up to ten years—26 weeks; service over ten years—52 weeks.

The company introduced the plan on a unilateral basis and subsequently secured agreement for it from the unions. Officials explain in a letter addressed to employees that "We would like to adjust our policy so as to demonstrate our confidence and to encourage [our employees] rather than retain close control on everyone for the sake of a very small number who might act irresponsibly". It is stated, furthermore, that the traditional practice of paying plant workers on an hourly basis and requiring the punching of a time clock is a holdover from a period in industrial history when work patterns were more uncertain, when a great deal of casual help was employed, and when "there was little confidence between management and employees".

In elaboration of its motives and objectives in shifting to the weekly salary, the company points out that this was not an isolated step but part of a larger program based on the notion that "controls" on hourly-paid employees were restricting the potential of this group. This had to be combined with a policy of inducing a maximum degree of intelligent decision making at all levels of the organization. In the past few years efforts have been directed along the following lines: 18/

1. Getting the foreman to accept his responsibilities as a decision maker.
2. Getting the foreman to accept his full responsibility as the manager of his group of employees, and adjusting plant procedures so that he could exercise this responsibility.
3. Getting the foreman to delegate more responsibility to his people.
4. Giving machine operators, maintenance men, etc., more information about what they were doing and why they were doing it.

5. Providing both the foreman and his men with some of the tools and concepts of management so that they could better evaluate what they were doing and how they were doing it.
6. Teaching the foreman how to use the staff groups (engineering, industrial engineering, metallurgical, accounting and personnel) to add to his own resources of experience and knowledge.
7. Teaching people at all levels to try to do "what makes sense in the circumstances" rather than follow rules and instructions blindly.
8. Encouraging people at all levels to speak up, and to ask questions and to add their informed intelligent ideas to the stream of productive effort in the plant.
9. Reorganizing departments to make it easier for some of the objectives listed above to be accomplished and to permit better teamwork.
10. Reallocating management people so as to improve the effectiveness of the above program.

In line with this program, the company in 1962 did away with clock cards. In 1965 it eliminated the Inspection Department and placed this responsibility on operators. In 1966, it was decided to eliminate the "hourly" system of pay. Each of these major changes was "part of a much larger program of adjusting our system so as to release the potential of our human resources. They were not undertaken as isolated 'gimicks'." 19/ Early operational experience of the company encountered some slight increase in absenteeism but it was expected that this would return to the normal situation after employees became accustomed to the new system. However, there is also evidence that the new plan has raised payroll costs approximately 5 per cent.

Other Cases of Weekly or Monthly Wage Guarantees

The program of the Aluminum Company of Canada for shifting plant hourly-paid employees to a salary basis is the only such case to come to the attention of the author. It is likely that others exist, but because no systematic survey was attempted, it is impossible to say.

However, a search of the collective agreement files of the Collective Bargaining Division in the Canada Department of Labour showed a small number of collective bargaining agreements providing for income guarantees of various kinds. These, while not incorporating precisely the same principle, produce somewhat the same effect. They resemble, in design at least, the weekly or monthly guarantee promoted by the UAW in its 1967 bargaining program.

In one agreement between the Fisheries Association of British Columbia and the United Fishermen and Allied Workers' Union, a monthly wage basis is established. Wages are paid semi-monthly under a guarantee that the total straight-time and overtime earnings of an employee taken at the rates set out for each classification will not be less in each calendar month than the guarantee stipulated. The employer is given the right to shift employees from work in their own classification to other work; and if such other work carries a lower rate of pay and the assignment is for a period exceeding one day, the employee receives the rate of pay of the lower classification. However, male employees who work on the basis of a monthly minimum guarantee do not have their hourly rate changed because of sporadic employment at random jobs about the plant. Unless definitely reclassified, their monthly guarantee and hourly rates are not changed.

In an agreement between Molson's Brewery, Quebec, Ltd., and the Molson Employee Association, the company provides that if employees work only a part of the standard week at the company's discretion, they, nevertheless, receive their standard weekly salary. But the company may, at its discretion, pay for less than the standard week when absences occur for medical or other reasons.

An agreement between Continental Can and the United Steel Workers provides what is, in effect, a guarantee to those with two years of continuous service or more, that earnings in any calendar quarter will not fall below 95 per cent of earnings received during the base year; this may be the previous calendar year or some prior year if no work was performed in the previous year.

In respect to greater Winnipeg transit, the Metropolitan Corporation of Greater Winnipeg, in an agreement with Amalgamated Transit Union, guarantees "spare" men a minimum of 75 hours pay for each two-week pay period.

Finally, in an agreement with the Teamster's Union, various cartage and moving companies guarantee to 60 per cent of their employees listed in an appendix to the agreement, in order of seniority, a minimum of not less than 40 hours' wages per week.

There is no evidence in these agreements that management and unions see the short-term guarantee as a device for enhancing employee interest and motivation. Rather, they resemble many such provisions in collective bargaining agreements in the United States where production conditions permit payment on a weekly or monthly basis without serious

risk of having to pay employees for whom no work is available. Nevertheless they do involve some payroll commitment in advance. The plans which we consider in the remainder of the study involve compensation arrangements which take the form, not of guarantees of duration, but of supplementary pay contingent on the productivity or profitability of the firm. And the intention is that such contingent commitment will create a work environment conducive to higher productivity and profits.

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- 1/ David Lasser, "The Impact of Unions and Technological Change on Wage Payment Systems", in Proceedings of the Ninth Annual Labor-Management Conference, West Virginia University, April 10-11, 1959, p. 17.
- 2/ Cf. Garth L. Mangum, "Are Wage Incentives Obsolete?", Industrial Relations, Volume 2, Number 1 (October, 1962). Cf. also James R. Bright, "Automation and Wage Determination", in John H.G. Crispo (ed.), Industrial Relations: Challenges and Responses (Toronto: University of Toronto Press, 1966).
- 3/ To a limited extent the disparity in time periods can be overcome. Industry wage surveys conducted by the Bureau of Labor Statistics since 1958 yield more recent estimates of incentive payment coverage in selected industries. Where these estimates are available for any years after 1958 and where the industry studied was reasonably comparable to that covered in the 1958 report, they are shown in Table 1.

One additional subsequent estimate may be noted. Occupational wage surveys conducted by the Bureau of Labor Statistics between July 1961 and June 1963 yield the estimate that about 26 per cent of plant workers in manufacturing were paid by incentive methods. These studies covered establishments in 80 metropolitan areas. Cf. John Howell Cox, "Wage Payment Plans in Metropolitan Areas", Monthly Labor Review, July, 1964, pp. 794-796.
- 4/ To some extent this difference was corrected by deducting from the Canadian figures the number of employees paid on a "mileage and commission" basis. The assumption was that the latter were predominantly driver-salesmen, an assumption supported by the evident concentration of these employees in the dairy products, baking, and beverage industries.
- 5/ L. Earl Lewis, "Extent of Incentive Pay in Manufacturing", Monthly Labor Review, May, 1960, p. 463.
- 6/ This account is drawn from papers presented by Canadian Westinghouse officials at the Queen's University Annual Conference of Senior Industrial Relations, Kingston, Ontario, May 23 and 24, 1963. The papers were: J.W. Henley, "Converting From Incentives to Daywork Pay", and E.A. Mortimer, "Conversion From Incentive Daywork Payment at Canadian Westinghouse Co., Ltd.". In addition acknowledgement is made of the opportunity afforded the author by J.W. Henley, Vice-President for Personnel, to discuss the conversion in a personal visit in Hamilton in November, 1967.
- 7/ J.W. Henley, "Converting From Incentives to Daywork Pay", p. 5.
- 8/ Ibid., p. 6.
- 9/ Cf. Sumner H. Slichter, James J. Healey, and E. Robert Livernash, Impact of Collective Bargaining on Management (Washington, D.C.: Brookings Institution, 1960), pp. 817-818.

- 10/ E. Robert Livernash, "The Impact of Unions and Technological Change on Wage Payment Systems", in Proceedings of the Ninth Annual Labor Management Conference, West Virginia University, April 10-11, 1959, p. 5.
- 11/ U.A.W. — General Motors Local Leadership, Newsletter, July 11, 1967, p. 1.
- 12/ Technology and the American Economy, Volume I, p. 91.
- 13/ As quoted in U.A.W., Newsletter, p. 6.
- 14/ Ibid., p. 7.
- 15/ Labor Relations Reporter, Volume 66, Number 17, (October 30, 1967), Analysis, p. 34.
- 16/ Labor Relations Reporter, Volume 66, Number 19, pp. 170-171.
- 17/ "Salaries for Blue Collar Workers", The Conference Board Record, November, 1965, pp. 15-16.
- 18/ Statement by the Aluminum Company of Canada, Kingston Works' Salary Operation and Its Background, April 4, 1967, pp. 2-3.
- 19/ Ibid., p. 3.

CHAPTER III

SHARING PRODUCTIVITY GAINS

Introduction

In instituting a salaried status for its production workers, the Aluminum Company of Canada is attempting to give effect to certain fundamental propositions with respect to worker motivation. The major one is the notion that the energy and interest which workers bring to their jobs will increase as the "responsibility" granted them for decision making expands and as they are induced to see that the work environment affords opportunities for participation as a member of a team; the principle suggests the possibility of increasingly accomplishing individual needs while fostering the goals of the company. Based on the same premises, a variety of large group or plant-wide incentive plans have been formulated under a variety of conditions. Sometimes the impetus to attempting a new departure in work organization and compensation is a serious financial predicament for the firm; in other cases this has been in response to a changed environment of government regulation; in still others, management and unions have sought an outlet to an impasse growing out of particularly drastic changes in technology; and, finally, there are those cases in which employers have sought to promote a personal conception of the link between cooperative management-employee relations and the success of the enterprise.

In all of these cases the proximate objective is an increase in labour productivity, in the yield per unit of labour input. This being the case, such plans, to the extent that they are successful, would appear to fit the national objective in respect to increasing productivity as

expressed in the views of the Economic Council which were referred to earlier. In this chapter some representative types of plans, developed largely outside of Canada, will be described.

An important condition governing the introduction of a plant-wide productivity-sharing plan is the presence or absence of a union. While any such plan must win the acquiescence and support of participating employees, the presence of a union conditions the content of the plan and its ultimate viability. For this reason we shall first consider, in the section that follows, the position taken by Canadian trade unions on the sources of productivity increase and the role of collective bargaining as these relate to the stated national interest in maximizing the rate of increase in productivity.

Union Policy on Promotion of and Adjustment to Productivity Increases

Perhaps not surprisingly the approaches of the union movements of the United States and Canada, at least as expressed by spokesmen at the federation level, are uniform in content. A succinct summary of union views would run as follows: productivity has in recent years proceeded at a satisfactory pace. It is in the interest of workers for productivity to increase at as rapid a rate as possible because, ultimately, this determines the standard of living which the nation enjoys. The author of an article in the American Federationist, May 1967, sees in the fact that productivity in the United States is nearly twice as high as it was 20 years earlier, the source of lower costs, rising income, and greater leisure.

If productivity has not proceeded more rapidly, it is due, in periods of substantial unemployment, to the failure of industry to utilize

fully all available capacity in plant, equipment, and labour; in periods of tighter labour markets and high levels of output, it is due to the need to resort to less productive equipment, and to less highly trained workers. In the United States stress is laid on the loss in production growing out of the failure to use the potential Negro labour force fully. All of these deficiencies call for active manpower policy on the part of government. Also, government policy must be addressed to assuring a high level of effective demand. Similarly, wage increases, by increasing purchasing power, assure that productive resources will be fully utilized. The widespread fear of inflation is misplaced. It leads to government policies of retrenchment with the likely consequence of slowing up the rate of growth in the economy and forcing a higher rate of unemployment.

The relation between technological change and increased productivity is acknowledged, but there is no inference that labour ought to pursue a policy of promoting and facilitating the introduction of automation and other technological change. The policy position is, rather, that unions must seek through collective bargaining to assure that the adverse impact of such changes in technology is minimized.

While it is true that technological advance has within itself the potential for much economic good—it is a key element in stimulating rapid economic growth thus making possible higher living standards for all—it is also true that the introduction of technological change causes great hardships for the people involved. 1/

Concern for increasing the rate of productivity growth would be expected to imply modifications in work rules, a favorable attitude towards productivity-sharing plans. Preoccupation with the impact of technological

change leads to attempts through collective bargaining to win adherence to clauses such as those spelled out in "Automation, A National Program".

Technological change is an appropriate subject matter for negotiation, and it must be the basis of agreement provisions that give union members both a share of the gains of increasing productivity and protection against insecurity of employment...[such] clauses...include advance notice of changes; reduction of personnel by attrition; broadened seniority units; transfers; broadened areas of opportunity; moving allowances; retraining programs; supplemental unemployment benefits; income guarantees; severance pay; vested pensions; the shorter work week with no reduction in take-home pay; early retirement; sabbatical vacations; retirement preparation leave; additional holidays; joint Study Committees.

This position is seen as receiving strong support in the recommendation of Justice Freedman. According to the federation's policy statement: 2/

Commissioner Freedman argues convincingly that there is an obligation on the part of management to defer any technological changes until the trade union with which it has relations has been notified and been given an opportunity to treat it as a negotiable item. Commissioner Freedman suggests that an appropriate way of forcing them to do so would be through an amendment to the Industrial Relations and Disputes Investigation Act. He states: ...'It would be possible to provide, by an appropriate amendment, that any technological innovation, development or change proposed by the employer which would materially and adversely affect the working conditions of the employees should either be deferred for negotiation at the next open period or dealt with in the same way as if it were a provision falling within the scope of Sub-section 2 of Section 22 of the Act. Amendment through the Industrial Relations and Disputes Investigation Act would have the advantage of closing a gap in the statute that technological advance has revealed.'

The Canadian Labour Congress (CLC) has since urged that the proposed amendments to the Industrial Disputes Investigation Act be promoted by the federal government and that a similar change be embodied in the labour laws of the provinces.

A similar approach may be judged to have found expression in a joint union-management statement of principles relating to technological change in the DOMTAR Company. These were formulated by a sub-committee of union and management representatives in seeking to lay the foundation for company-wide agreement on policies for dealing with "industrial conversion" taken to encompass "all manner of changes likely to affect the position of the company's regular work force in a permanent way" in the DOMTAR Company. 3/

The sub-committee acknowledged the virtue, even the imperative need for increasing productivity in Canada through technological change in order to "improve Canada's competitive position and ensure more rapid growth". Unemployment and inflationary pressures would be more clearly contained. Unmet social needs could be filled and a higher standard of living assured. 4/

At the company level, productivity growth permits survival as a prosperous entity:

More particularly, through industrial conversion, a thriving enterprise should increase its ability both to pay its workers well and to provide them with a greater measure of long-term employment security. 5/

Nowhere in the document, however, as reviewed by Crispo, was there any statement which suggested that the basic principles included recognition of the possible impetus to productivity growth that could be provided by cooperative action. Rather, it is assumed that the company

will so manage its affairs that the changes needed to maximize growth will be developed and introduced. Such measures are applauded as beneficial, both to the community and to the employees. But provision must be made to ease the burden which change imposes on some workers.

The responsibility of management is a dual one:

As the chief entrepreneurial agent in our economic system, management has an obligation to strive to introduce changes which will equip it to compete more effectively. Only in this way can enterprises provide increased long-term employment security for their employees. At the same time, management must not pursue its goal of efficiency without regard to its effects upon workers whose welfare is thereby threatened. Through careful timing, advance notice and consultation with the representatives of its employees, management can do much to reduce the incidence of worker disruption and to assist those who are unavoidably forced to make some adjustments. 6/

Finally, the responsibility of organized labour is spelled out:

Organized labour has a responsibility to protect the interests of its members in the face of industrial conversion. History records that it is futile to simply resist the introduction of change. Therefore, the labour movement must accept industrial conversion as a necessary concomitant of modern industrial society and concentrate its efforts on mitigating its adverse effects. Organized labour's twin responsibilities are thus to help its members understand the necessity of change, while endeavouring to shield them from undue hardships in as constructive a manner as possible. 7/

In sum, the concern of trade unions is in assuring that productivity growth yield equitable treatment. Collective bargaining must take into account current and potential profit levels and the need to eliminate substandard wages. Otherwise, there is a lag in real earnings behind the nation's rising productive efficiency, a continuing decline in the share

of national production going to labour, and a serious weakening of consumer markets. Also, they are concerned that production expand lest growing productivity be taken out in reduced demand for labour. Finally the disruptive effects of technological change must be tempered.

The Confédération des Syndicats nationaux (CSN) sees the development of technological change and the challenges posed to the trade-union in roughly similar terms. If anything, union policy prescriptions are phrased in more vigorous if not more militant tones.

...this unheard of progress by machines is upsetting the working world, is costing jobs, doing away with trades, requiring the worker to get new and quite different training, forcing the working population to reclassify itself thus necessitating retraining of the labour force and, because of a lack of sufficient foresight, because of a lack of a fairly slow pace towards automation, because of a lack of vast retraining programs, is provoking uncountable personal catastrophies among workers, unemployment, the declassification of numerous workers and poverty. 8/

This rapid rate of technological progress calls for action on the part of both the State and the trade union. As for the latter:

What we want to achieve first in confronting this problem is that the trade union be kept posted well in advance about all projects, information, research and data likely to lead to decisions to modernize a plant, enlarge it or move it; or to changes in productivity, increased or diminished staff, to changes in skill requirements, to partial or total automation, or to any other steps similar to the foregoing. 9/

Provisions in Collective Bargaining Agreements

There has been great preoccupation in Canada with adjustments to technological change, but this has not led to the adoption of plans which provide for sharing of productivity gains growing out of improvements in technology or in increases in productivity growing out of other improvements. One source of evidence of this are studies of provisions in collective bargaining contracts which govern technological change. A second is in the constitution and work of the Manpower Consultative Service of the Canada Department of Labour.

What, in effect, have Canadian unions been able to secure in collective bargaining which would give voice to the policy proclaimed above? The CLC statement on automation (referred to earlier) points out that "a survey of the 5,000 odd collective agreements on file with the CLC Research Department shows clearly that very few unions have been able to negotiate adequate protective clauses."

A scattered review of studies of collective bargaining agreements would appear to support this.

A survey of 120 collective agreements in manufacturing industries in Nova Scotia 10/ disclosed 20 agreements with references to some aspect of technological change. The study defined technological change to include "changes in production methods, raw materials, power sources, communications, and permanent shifts in productivity markets".

In these agreements, there is no mention of income maintenance provisions. Seven provided for advance notice, five of them specifying how far in advance notice would be provided. For example, the following clause appeared in one agreement:

The company will keep the union fully informed of their plans for future capital development or operational changes by at least one year. 11/

As the study points out, this provision for advance notice allows the employee to make the necessary adjustments to establish himself in a new position and, hopefully, to make the transition without any loss of income.

Several agreements provide for retraining at company expense, but these seem to cover retraining for the purpose of transferring to work introduced by the change and, in some cases, mention is made that a reasonable time will be allotted union members to familiarize themselves with newly introduced processes.

Early retirement is provided in one agreement. Two of the agreements require the company and union to negotiate in order to solve mutual problems arising out of change. In six agreements, management rights clauses appear to relieve the company of any obligation to give advance notice of contemplated technological change and to discuss such changes with the union.

The company reserves the right to improve or install new processes, to substitute or add to present equipment, and to make any necessary adjustments in the work force. 12/

In a few of the contracts the clause was attenuated by a provision that the company agreed to employ any employees displaced as a result of technological change in accord with seniority. Some agreements expressed recognition of the disruptions introduced by technological change and the readiness of management and unions to get together for the purpose of trying to minimize the effects of change.

Where change involved transfer to a lower-paying job, some contracts provide for maintaining the old rates for a brief period.

In a conclusion to the study, the authors indicate that interviews disclosed the existence of many practices not detailed in the collective agreements, yet which become operative whenever a change is introduced. Mention is made of the coverage of seniority clauses as these operate in cases of displacement due to technological change. Furthermore, in many cases there is a passive understanding between the company and union that discussion will take place, even though this is not explicitly incorporated in the contract.

Collective Bargaining Agreements in Ontario

A similar study in Ontario examined over 1,000 collective agreements covering some 218,000 production and related workers in ten industry groups in manufacturing. ^{13/} The agreements analyzed were the most recent ones on file with the Research Branch of the Ontario Department of Labour as of March 31, 1967. Of these agreements, 244 or 31 per cent, contain technological and other industrial change provisions covering 149,100 workers or 68 per cent of the total.

The clauses thought to reflect the efforts through collective bargaining to promote adjustment to change growing out of new technology or plant location, etc., were classified and examined under the following headings: Advance Notice and Consultation; Changes in Job Content and Rates of Pay; Job Security; Cushioning the Impact of Job Change and Job Loss, including such items as protection against reduced earnings and severance pay; and, finally, Sharing in the Gains of Productivity. The

distribution of agreements and employees covered, according to each of these classifications of collective agreements, is shown in Table 4.

In discussing advance notice and consultation provisions in the agreements examined, the author says:

Management has historically reserved to itself the right to introduce technological or other industrial changes and to decide whether or not it will inform employees about them. In most instances unions are prepared to accept management's right to introduce change. However, because their members are involved, unions have increasingly sought to have information as to when technological change will be introduced, how it will be implemented, and who will be affected.

Establishment of the union's right to information and effective provision of it can be termed a 'procedural prerequisite' in any program designed to face the employee dislocation problem accompanying the introduction of technological change. Bargaining for this right has resulted in the following types of collective agreement provisions: Advance notice, Consultation, and Special Joint Committees. 15/

Provision for consultation may imply subsequent resolutions which go beyond the provisions of agreements and may, in fact, result in innovations in the conditions surrounding the treatment of a technological change. The matters eligible for discussion are not identified in most agreements. Where they are mentioned, they centre on questions of seniority, transfer, early retirement, retraining and wages, hours and working conditions.

Of major interest in the framework of the present study is the category of provisions having to do with the sharing in the gains of productivity. As noted above, three of the agreements provided for such clauses. However, examination of these instances reveals that two are in the

TABLE 4

SELECTED PROVISIONS IN COLLECTIVE BARGAINING
AGREEMENTS, ONTARIO, 1967

<u>Major Provision Class</u>	<u>Agreements</u>		<u>Employees</u>	
	<u>No.</u>	<u>Per Cent*</u>	<u>No.</u>	<u>Per Cent*</u>
Advance Notice and Consultation	87	26.0	37,969	25.5
Change in Job Content and Job Rates	215	64.4	71,429	47.9
Job Security	110	32.9	98,141	65.8
Cushioning the Impact of Job Change and Job Loss	101	30.2	35,912	24.1
Sharing in the Gains of Productivity	3	0.9	24,374	16.4

* Percentage is of all agreements with change provisions (334) and employees covered by them (149,100).

automobile industry and refer to annual improvement factor clauses. The third is a small unit consisting of 89 employees in the machinery industry. The annual improvement factor grants employees in the bargaining unit a deferred increase in hourly earnings according to expectations that the probable increase in productivity in the establishment will coincide with the national rate of increase in productivity. They do not, however, envision any attempt to measure and share the actual gains in productivity resulting from changes within the enterprise itself.

Canada Department of Labour Study of Collective Agreements-

Reference may, finally, be made to a study of 471 agreements covering 500 or more workers, prepared by the Economics and Research Branch of the Canada Department of Labour. 16/ It was found that 133, or 28 per cent, of the agreements contained clauses bearing on adaptation to technological change. These provided for advance notice; income maintenance; worker adaptation through retraining or relocation allowances; and employment sharing in the form of a reduced work week, extended vacation or early retirement. Also the creation of joint committees for consultation on problems arising out of technological change was provided for in 11 per cent of the agreements.

Like the surveys described earlier, this one discloses no tendency for collective agreements to incorporate plans or provisions for sharing gains growing out of increases in productivity. The income-maintenance provisions may be thought of as representing agreement on the part of the firm to pass on some of the savings in labour cost growing out of improvements. But in most cases the payment is a severance allowance which has become a normal part of compensation of employees, unrelated to the special case of displacement due to technological improvements.

Responsibility for Stimulating Productivity

Shultz and McKersie have identified three broad approaches to:

...improvement of productivity and the associated problems of sharing the consequent gains and managing the consequent transitions for people and organizations....

These approaches are: (1) buy-out of bad practices, where existing arrangements which impede productivity are identified, evaluated as to their cost, and, in effect, bought out by management; (2) gain-sharing, where a broad formula is developed, linking bonus payments or some other general goal with improved performance by the work group involved; and (3) manpower policy, where a set of methods is evolved to meet the manpower consequences of change, with gains from the change shared in some 'ad hoc' fashion, usually built into the transition process itself. 17/

The buy-out of bad practices is an approach followed in the wave of productivity agreements which has characterized collective bargaining in Great Britain in the past few years. It may also be said to have been the basis of the agreement between employers and union in the West Coast longshoring industry of the United States.

Gain-sharing is typified by the "Scanlon Plan" and the "Rucker Plan" as well as by the more recent Long-Range Sharing Plan adopted by the United Steelworkers and Kaiser Steel. While "manpower policy" is listed by Shultz and McKersie as a third approach to stimulating higher productivity, one may question whether it is not more appropriately regarded as concerned with the consequences of productivity growth. To be sure, a well knit program developed in advance to deal with the consequences of proposed substantial changes in technology or methods may remove obstacles

to their introduction, but it is surely of a different order from cooperative efforts to enhance productivity through employee effort or reductions in use of materials or the removal of costly work-practices.

Our review of policy positions of unions and of expressions of such policy in collective agreements in Canada suggests the tentative conclusion that collective bargaining has produced very little in the way of agreements touching the first two types but has concentrated on the third, on manpower policy. Moreover, government policy has been concerned with promoting and supporting this effort with resulting programs exemplified in the work of the Manpower Consultative Services Section of the Manpower Administration.

In this respect, the general policy directions have coincided with those in the United States. On the basis of a study of manpower adjustments to technological change in Western Europe, Stieber says:

At the risk of oversimplification, we would say that West European countries studied are interested in the positive effects of technological development, whereas up to now the United States has been concerned primarily with the negative aspects of automation and technological change. The major question posed in the full employment countries is: 'How can we speed up technological development in order to increase productivity and the rate of economic growth?'

In the United States the predominant question has been: 'What is the effect of automation on unemployment and what can be done to minimize adverse effects on employees?'

This difference in attitudes reflects the different unemployment situation and manpower outlook in the United States and most of the countries in Western Europe. With a high rate of unemployment, a rapidly expanding labor force, and an economy undergoing rapid

technological change, the United States must not only create a few million new jobs each year to reduce unemployment and absorb new entrants into the labor force and offset increasing productivity; it must also adjust the skills of manpower to the requirements of a technologically advancing economy. The West European countries already have full—some of them overfull—employment and face a period of declining growth in their active populations during the next five years. Their problem is not one of job creation, but of job elimination. Their efforts are directed at the most efficient utilization of available labor supplies and drawing upon manpower reserves, wherever possible, to increase the size of their active populations. 18/

Harbison argues that collective bargaining is a limited-purpose institution. 19/ Its function is to act as a pressure organization in the bargaining unit and it cannot be expected to solve modern industrial social problems such as unemployment, inadequate economic growth, etc. Problems of economic growth and unemployment are better tackled by increasing aggregate demand. In accomplishing this goal, appropriate monetary and fiscal policies, rather than collective bargaining procedures, are the appropriate instruments. He says:

Certainly, we would not expect union pressure on management to increase productivity, to improve efficiency, or to make enterprises more profitable. Unions in our part of the world are management regulating devices; they are not expected, as in the Communist countries, to energize workers in the production process. In enterprise economies, this is the job of good management.

But suppose, as in England, that collective bargaining practices, long-established, tie the hands of governments which seek to accomplish larger economic and social goals through the monetary and fiscal policies mentioned. Harbison 20/ refers to the fact that while, in collective

bargaining, the unions act as a watchdog and a pressure organization, they may have some slight effect in impeding the introduction of methods and machinery which will increase the rate of productivity. But if this is the case, is it not valid to ask whether or not it is possible to work out through collective bargaining instruments, accommodations which reduce the impediments to productivity growth. Is it not possible, in other words, to look to collective bargaining as one means of improving the terms of the trade-off between unemployment and rising price levels?

Ryder takes it as given that collective bargaining practices have a bearing on the rate of introduction of technological improvements and changes in the structure of production. 21/ Such practices, therefore, have an effect on the rate of growth of productivity. He makes the point that in so far as management flexibility is concerned, collective bargaining practices in the United States and, one might add, in Canada, are much less restrictive than those in Great Britain, for example; and hence, there is much less room for promoting the kinds of practices that Shultz and McKersie refer to as stimulating productivity.

In Great Britain there has been a strong movement in support of productivity agreements; under the wage freeze, wage increases are exempt if they result from productivity improvements which do not increase unit costs. 22/

Despite the tendency in the United States to accept the underlying assumption that managerial initiative is the important starting point for technological improvement with the unions exercising a right to review such initiative, and to seek through grievance procedures to obtain relief, there have been several prominent innovations developed

through collective bargaining in the United States in recent years. Two of these in particular will be reviewed and, in one case, where evidence of repercussions on parallel collective bargaining situations in Canada have been manifested, the conditions in Canada will be discussed.

Plant-wide Incentive Plans

However, the two plans to be discussed originated in efforts to minimize employee resistance to change in a climate of rapid technological improvement. The Scanlon and Rucker plant-wide incentive plans have a longer history and are worth dealing with briefly as examples of attempts to mobilize the productive potential of employees by combining monetary incentives and a work environment which induces active employee interest in the enterprise. Thus, they represent alternatives to the individual or small group incentive systems discussed in Chapter II.

Both plans provide for company and workers to share in the gains resulting from reduced cost of production. Both require the development of a formula relating payroll cost to the sales value of output during some base period. Thereafter, all workers in the plant or unit receive monthly bonuses whenever the proportion of costs to sales value of output is less than the norm. The Rucker formula is more precise, utilizing data covering a five-year period in an effort to arrive at standards which can with confidence be taken to represent the underlying payroll-output relationships of the firm. The Scanlon plan usually relies on a single year as base period. Also, the Rucker formula allows for changes in other elements entering into the final sales value of output, while the Scanlon plan focuses on savings in labour inputs.

Similarly, both plans count on joint management-employee committees to develop suggestions for reducing costs. These committees are designed to implement the principle of employee participation in the operation of the enterprise and interest in its fortunes. Joseph Scanlon's early experiences as an official of the United Steelworkers led him to emphasize his plan as a means to effecting union-management cooperation. He argued that a strong local union was essential to mobilizing employee participation. On the other hand, the Rucker system has been adopted mainly in non-union enterprises, but places equal emphasis on mechanisms for inducing employee suggestions for improvements in operations which affect costs.

According to one estimate made in 1962 the Scanlon plan has been employed in "two score of plants", while the Rucker plan has been introduced "in upwards of two hundred plants". ^{23/} No information is available with respect to the extent to which these plans have been introduced into Canadian firms, although the author did encounter one case in which a Scanlon plan had been suspended and one case of apparently successful operation of a Rucker plan. The latter occurs in a medium-size chemical products firm where, since the plan was introduced in 1961, employees have enjoyed bonuses in a majority of the monthly accounting periods. Over the period, bonuses have ranged from 1 per cent to 25 per cent of monthly payrolls. In this company, which is non-union, employees serve with supervisors and higher company officials on a Rucker committee whose task it is to induce suggestions for cost savings and then to pass on their merits.

The Kaiser and Longshoring Agreements

The most prominent instances in recent years of accommodation through collective bargaining of the simultaneous interest of employers in cost reduction through technological improvements and the concern of workers with the consequences of such change are found in two agreements, both centred on the West Coast of the United States. One is the Long-Range Sharing Plan adopted by Kaiser Steel Corporation and locals of the United Steelworkers of America. The second grew out of an agreement between the Pacific Maritime Association and the Longshoremen's and Warehousemen's Union. Using the classification scheme proposed by Shultz and McKersie, the former may be described as a gains-sharing or productivity-sharing arrangement; the second involves a "buy-out", an arrangement in which the employers agree to establish a fund to be used partly to guarantee minimum earnings for union members, and partly to meet certain welfare purposes of the union. In exchange, the union agreed to waive specified restrictions on the introduction of labour-saving techniques and on the composition and assignment of work crews.

To what extent have the principles or the techniques embodied in these two agreements been adopted in collective bargaining in Canada? On the basis of the investigations incident to this study, including the reviews of studies of collective agreements, one would have to conclude that these devices have not been adopted in Canadian collective bargaining. One exception is the partial adaptation of the mechanization and modernization plan in the longshoring industry of British Columbia. Also, to be sure, ideas somewhat akin to these no doubt become part of the negotiations which follow on clauses in agreements that called for advance notice and consultation.

In these, the parties, in the course of consultation prior to introduction of changes in technology or processes, have made a variety of accommodations looking towards amelioration of the consequences of the change. Evidence of this occurs in the list of case studies compiled for the National Conference of the Economic Council of Canada. ^{24/} But the fact remains that perceptions of the role of collective bargaining and the solutions to productivity problems which it permits have not led to any substantial effort along the lines of the two prototype agreements described. ^{25/}

The Kaiser Plan—The Kaiser Long-Range Sharing Plan was the product of three years of study by a tripartite committee consisting of three public members, and three representatives each of the Kaiser Steel Corporation and of the United Steelworkers of America. The plan went into effect in March 1963 and provided the following:

- (1) Protection against the loss of employment due to any technological advance or new or improved work methods. Employees are not guaranteed against lay-off due to changes in market demand.
- (2) A monthly sharing of savings in the use of materials and supplies and from increased productivity of labour, whether growing out of direct effort of employees or by improvements in equipment or processes. Employees' share of dollar gains were set at 32.5 per cent of the total amount saved. This figure is based on the historic proportion of labour costs to total manufacturing cost at Kaiser.

- (3) Union members are guaranteed, as a minimum, any contract improvements negotiated in the basic steel industry. Such gains were to be deducted from the employees' share of savings.
- (4) Workers on incentives at the time of the agreement could elect either to continue on incentives or transfer to the long-range sharing plan in return for specified lump-sum payments.

Under the Kaiser plan eligible workers received an average cash bonus of 50 cents an hour in the plan's first fiscal year; 24 cents in the second; and 18 cents an hour in the third. During 1967, the average rose to 33 cents an hour, but only after certain adjustments in the plan made in 1966.

The Agreement was renewed in January 1968, with certain important modifications in the distribution of savings which will increase workers' monthly bonuses by 25 cents an hour or more. This will occur because a larger part of the cost of applying industry-wide wage and benefit increases will be paid out of the employer's share of cost savings. Also, about 800 workers will be transferred from the long-range sharing plan back to group incentives. Friction has arisen over the fact that some employees worked alongside of incentive workers whose earnings were higher. 26/

The Longshoring Agreement—In 1960, in an agreement between the International Longshoremen's and Warehousemen's Union and the Pacific Maritime Association, the employers undertook to establish a jointly administered Mechanization and Modernization Fund into which they were to pay

\$5-million a year for $5\frac{1}{2}$ years. Of the total, \$2-million each year went into a wage fund which guaranteed a minimum wage to union members, and the remainder provided lump-sum payments to longshoremen who retired at age 65 with at least 25 years of service. In return, the union gave up certain work practices which management regarded as restrictive.

According to Kossoris who, in advance of the 1960 agreement, was a consultant to the parties on matters of measuring longshore output and productivity, the gain to employers from the M and M agreement may be conservatively estimated at \$150-million against a cost of \$27.5-million paid into the fund between 1960 and 1966. 27/

In 1966 a new agreement was worked out providing for continuation of the M and M fund; however, somewhat different terms were established for allocation of the fund. The negotiations in 1966 turned on continuing questions of efficient utilization of labour, and on the question as to whether the employer payments during the earlier agreement had once and for all bought out the restrictive practices. At one point in the negotiations, employers offered a type of gains-sharing proposal:

Based on the overall manhour-per-ton ratio of 1965, PMA offered the union 1/2 hour's pay for every additional hour's reduction. In principle, this was the theory on which the 1959 and 1960 negotiations had been based. But early in 1960, employer groups had substituted a flat amount for the earlier proposal. Similarly, the union which had wanted a sharing program in 1960, now insisted on a flat annual amount. Now the union believed that the employers had already skimmed most of the cream off the top and that the offer to share future gains was not one that would net the union as much as it could gain otherwise. 28/

Over the term of the new five year contract employers will pay \$6.9-million annually into a renewed M and M fund to be used for granting lump-sum payments of \$13,000 to longshoremen who retire at age 63 with 25 years of service. 29/ Employers reaffirmed the original objectives to improve efficiency of operations, with the longshoremen sharing in resulting gains, but did not accept the "obligation to assure future payments to the 1960 registered work force in exchange for its surrender of work rules". Thus, for the younger men there is no assurance that there will be an M and M fund when they are ready to retire. A referendum on the agreement showed a closer vote than in 1960.

Kossoris concludes his assessment of the 1966 agreement by saying that "the outlook for the next five years is bright. There is no doubt that shipping employers will continue to profit handsomely from the new agreement. And Mr. Bridges asserts the new contract is unusually good". 30/

On the Canadian West Coast a somewhat similar approach to improvement in productivity through removal of work rules restrictions was followed in an agreement dated August 1963, between the British Columbia Maritime Employer's Association and the International Longshoremen's and Warehousemen's Union (Canadian area). An "automation protection plan" agreed to by the employers was designed to protect longshoremen who were then members of the union against loss of employment opportunity due to technological change. This included a guarantee of 1,820 hours per year of work opportunity or wages; transfers between ports with the employers paying the cost of moving; and transfers between job categories, with the employer providing the necessary training at full wages. In addition the

agreement provided certain supplementary pension benefits: (1) Voluntary early retirement at age 62 for men with 25 years of service, with a supplementary pension of \$100 per month for 72 months, (2) Disability retirement, at any age, with 15 years of service, on the basis of a supplementary pension of \$100 per month for 72 months, (3) If necessary, compulsory retirement at any age between 62 and 65, with a supplementary pension of \$300 per month for 36 months, (4) For all longshoremen covered by the plan and who retire normally at 65 with 25 years of service, a supplementary pension of \$100 per month for 72 months. The supplementary pensions referred to are in all cases fully vested. That is to say, the \$7,200, once the qualifications have been met, will be paid, either to the man or to his estate. 31/

But the automation protection plan was not actually formulated and no fund established. The reason is that there has been full employment on the waterfront since 1963, and, consequently there has been no loss in work opportunity due to technological change. However, the supplementary pension plan has been in effect since August 1963.

Thus, a significant difference between the United States and the Canadian West Coast agreements in this industry is that in the former case a fund was established, whereas in Canada automation protection was to be provided if needed. As matters turned out, the fund set aside in the United States to guarantee workers against loss of income through displacement was not used; in Canada the need to protect against a similar contingency did not arise. In both cases, there was no loss of employment.

In return for the supplementary pension plan and the employers' willingness to establish an appropriate automation protection plan, the

union agreed to smaller-sized longshore gangs. According to an employer representative this has yielded a worthwhile result in operations where the smaller standard gangs can usually be employed. In other operations, however, there has been resistance to the elimination of unnecessary men. 32/ In other words, the "buy-out" of certain manning practices considered restrictive by employers has not been as extensive as in the United States.

In concluding this discussion, it may be worth emphasizing that while the plans discussed have not been widely followed in other collective bargaining agreements, a majority of the union members who voted on renewal voted in favour. It is also true, however, that sentiment in support of the new arrangements was by no means universal. Union members possess a varied bundle of job-property rights even in the same plant or industry and an equally varied assessment of the quid pro quo in wages and/or fringe benefits for which they are ready to exchange them.

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- 13/ Dieter Plautz, Technological Change Provisions in Ontario Collective Agreements, Research Branch, Ontario Department of Labour, August, 1967.
- 14/ Ibid., p. 66 (Table 7).
- 15/ Ibid., p. 28.
- 16/ Response to Technological Change, 1967. Some of the agreements reviewed in the Ontario study are no doubt included in the survey cited here. However, the latter is wider in scope; it includes agreements in primary industries, utilities, trade and public service.
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19/ Frederick Harbison, "Collective Bargaining in Perspective", in John H.G. Crispo (ed.) Industrial Relations: Challenges and Responses (Toronto: University of Toronto Press, 1966), p. 65.

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23/ Harold J. Ruttenberg, "Group-Plant-Wide Hourly Incentives", address before a Conference of the Midwest Compensation Association, Columbus, Ohio, October 26, 1962, p. 5.

24/ G.K. Cowan, Proposed Measures to Facilitate Manpower Adjustment to Technological and Other Change: Twelve Selected Case Studies, prepared for National Conference on Labour-Management Relations, Economic Council of Canada, November 21 and 22, 1966, Montreal, P.Q., (Processed).

25/ Nor, it should be added, have these agreements spread to any substantial extent in the United States. According to a union spokesman, the Kaiser Plan was adopted in only one other steel firm, the Alan Wood Steel Company. He described the plan as being "so complicated that the employees do not understand it. A majority wants it but with modifications". He explained that the Steelworkers Union did not try to extend the plan throughout the industry because of the technical expense involved and because the Kaiser agreement was still regarded as a pilot case. Cf. Joseph Angelo, Assistant Director, United Steelworkers, District 38, in an address to a meeting of the Association of Labour Mediation Agencies, August 28, 1967, and reported in Labour Relations Reporter, Bureau of National Affairs, 8/28/67.

26/ New York Times, January 8, 1968 and January 18, 1968.

27/ Max D. Kossoris, "1966 West Coast Longshore Negotiations", Monthly Labor Review, United States Department of Labor, Bureau of Labor Statistics, October, 1966, p. 1069.

28/ Ibid., pp. 1072-1073.

29/ Immediate pay increases amounted to 50 cents per hour; in addition, deferred increases of 20 cents in 1969 and again in 1970 are provided.

30/ Kossoris, op. cit., p. 1075.

31/ This information was supplied the author by Emil Bjarnason, Trade Union Research Bureau, Vancouver, British Columbia, August 11, 1967.

32/ This information is based on correspondence with Mr. G.E. McKee, Executive Advisor to the British Columbia Maritime Employers' Association, January 5, 1968.

CHAPTER IV

PROFIT-SHARING

Introduction

The growth rate of a nation depends on the quantity of available productive resources and the efficiency with which they are used. The more rapid the rate of growth, the more manifest are the problems of adjustment to change; but the smoother and more rapid the adjustment, the greater the potential rate of growth. Can wage payment systems be devised which facilitate the rate of productivity increase by removing obstacles inherent in the fear of consequences of change on the part of employees or which mobilize the cooperation of employees in expanding output and reducing unit costs?

The gist of the discussion in the preceding section is to suggest the widespread premise that the managers and owners of capital bear the responsibility for productivity-increasing innovations while organized labour has the function of ameliorating the consequences of change for workers. In scattered cases, more frequent in the United States than in Canada, as far as one can tell, programs have been contrived which engaged employees in the productivity expansion process, either through modifying practices which impede it, or through joint efforts at reducing costs. These having been considered briefly, we turn now to an examination of profit-sharing as a device for accomplishing the goals of increasing productivity through cooperative relations in the enterprise.

Like productivity-sharing, profit-sharing is a technique for setting the monetary terms governing relations between workers and employer

in an economic enterprise. Both presuppose the existence of a foundation of market-determined wage and fringe payments on which is erected a system of supplemental earnings. These are measured, in the case of the former, by the improvement in the production costs of the firm in comparison with some base period reference point. Under profit-sharing, additional earnings depend on the net revenues of the enterprise, without a benchmark rooted in the past. The dependence of "progress" in the fortunes of the firm on improvements in technology, methods, and organization accounts for the conception of the problem in terms of the accommodation of workers and their union organizations to the changes in conditions surrounding work as "progress" ensues.

The essential element in profit-sharing is a contingent obligation undertaken by the employer to supplement the earnings of employees in an amount determined by the level of profits of the firm. This basic attribute is drawn on by advocates to support claims varying in scope from the objective of enhancing the energy and loyalty which workers bring to their jobs to the grandiose argument that the practice holds the essential solution to conflict in economic life. If profit-sharing is more like the first than the second, it would join the myriad schemes developed by enterprising companies to enhance the quality of their work force. If, however, it does have some merit as an organizing principle in ordering the relations among economic groups, its importance is greatly increased. Before examining this question we turn to a presentation of available evidence of the spread of profit-sharing plans in the United States and in Canada.

Definition and Essential Features

The definition adopted by the Council of Profit-Sharing Industries is sufficiently flexible for the purposes of the present study. Under that definition profit-sharing is "Any procedure under which an employer pays or makes available to regular employees, subject to reasonable eligibility rules, in addition to prevailing rates of pay, special current or deferred funds based on the profits of the business." 1/

The legal definition adopted by the Internal Revenue Service of the United States spells out the specific requirements of a plan which qualifies for special tax treatment. These are the following:

A profit-sharing plan is a plan established and maintained by an employer to provide for the participation in his profits by his employees or their beneficiaries. The plan must provide a definite predetermined formula for allocating the contributions made to the plan among the participants and for distributing the funds accumulated under the plan after a fixed number of years, the attainment of a stated age, or upon the prior occurrence of some event, such as layoff, illness, disability, retirement, death or severance of employment. 2/

Profit-sharing plans may be distinguished according to whether the shares allocated to eligible members are paid in cash or are deferred. The several types are described as follows. 3/

Current Distribution Plans—In this type, full payment of profit shares (in cash or equivalent form readily convertible into cash) is made to participants shortly after profits have been determined.

Deferred Distribution Plans—Under these plans, payment of profit shares are deferred for a certain period or to retirement; the shares

usually are placed in a trust fund. The plans may include provisions for payment of shares upon disability or death. Vesting rights are often included—the irrevocable right of participants to receive all or part of the amounts credited to their accounts—in case of premature separation from the company.

Combinations of Current and Deferred Distribution Plans—Under these plans, provision may be made to pay part of the member's share currently and to place the remainder in a trust fund for future distribution.

The Incidence of Profit-Sharing Plans in the United States

The evidence is that profit-sharing plans have grown rapidly in the United States over the post-war period. Of first importance as an index of this growth is the record of qualified deferred and combination profit-sharing plans that have been approved by the United States Treasury Department. The accelerated growth after 1960 is indicated in Table 5, where the figures represent cumulative totals after terminations have been subtracted from approvals. 4/

Interestingly, "most plans are being initiated in medium-sized and small companies (under 500 employees).... The average number of participants per plan at time of approval for the last three years was as follows: 116 participants per plan for 1963, 31 per plan for 1964, and 35 per plan for the first three quarters of 1965." 5/

Metzger goes on, however, to point out that there were some very large companies included in the new plan approvals. These included Burlington Industries, The Reader's Digest Association, Inc., Montgomery Ward, Xerox, Control Data Corporation, State Street Bank and Trust Company, and J.P. Stevens and Company.

Definition and Essential Features

The definition adopted by the Council of Profit-Sharing Industries is sufficiently flexible for the purposes of the present study. Under that definition profit-sharing is "Any procedure under which an employer pays or makes available to regular employees, subject to reasonable eligibility rules, in addition to prevailing rates of pay, special current or deferred funds based on the profits of the business." 1/

The legal definition adopted by the Internal Revenue Service of the United States spells out the specific requirements of a plan which qualifies for special tax treatment. These are the following:

A profit-sharing plan is a plan established and maintained by an employer to provide for the participation in his profits by his employees or their beneficiaries. The plan must provide a definite predetermined formula for allocating the contributions made to the plan among the participants and for distributing the funds accumulated under the plan after a fixed number of years, the attainment of a stated age, or upon the prior occurrence of some event, such as layoff, illness, disability, retirement, death or severance of employment. 2/

Profit-sharing plans may be distinguished according to whether the shares allocated to eligible members are paid in cash or are deferred. The several types are described as follows. 3/

Current Distribution Plans—In this type, full payment of profit shares (in cash or equivalent form readily convertible into cash) are made to participants shortly after profits have been determined.

Deferred Distribution Plans—Under these plans, payment of profit shares are deferred for a certain period or to retirement; the shares

usually are placed in a trust fund. The plans may include provisions for payment of shares upon disability or death. Vesting rights are often included—the irrevocable right of participants to receive all or part of the amounts credited to their accounts—in case of premature separation from the company.

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TABLE 5

PROFIT-SHARING PLANS IN THE UNITED STATES

<u>Beginning of Year</u>	<u>Number of Plans in Effect</u>
1940	37
1945	2,113
1950	3,565
1955	8,242
1960	20,117
1962	28,887
1963	33,552
1964	38,349
1965	42,931
1966	48,586

But the statistics cited above refer only to deferred plans or combination plans which have both the deferred and the cash feature. A supplement to this information is available in a careful sample study performed by Dun and Bradstreet during 1961-1962 for the Profit-Sharing Research Foundation. This study was confined to companies with fewer than 500 employees. It entailed a mail survey conducted among 6,135 firms; 16 per cent responded to the mail questionnaire. A follow-up telephone survey was made in January 1962, of a randomly-selected sample of the non-respondents. The telephone survey sample consisted of 635 firms.

Estimates based on blowing up the sample findings were that some 115,700 firms had a profit-sharing plan. Sampling error calculations placed the limits on these estimates at 85,500 on the low side and 145,000 firms at the upper limit with a probability of 90 per cent that the actual number of firms with plans fell between the limits.^{6/} These findings lead Metzger to estimate that approximately one out of every five companies with 50 or more employees have either a cash, deferred, or combination profit-sharing plan.

The Dun and Bradstreet study further shows that cash plans predominate in the very small companies. In those with 19 or fewer employees, 71 per cent of companies with plans reported that they provided for cash payments, 24.2 per cent had deferred plans and 4.8 per cent had combination plans. The statistics for the larger-sized firms, as summarized in Table 6, show that deferred plans are much more common in the larger firms.

TABLE 6

TYPES OF PROFIT-SHARING PLANS BY EMPLOYEE SIZE 7/

<u>Employment</u>	Type of Plan		
	<u>Cash</u> <u>%</u>	<u>Deferred</u> <u>%</u>	<u>Combination</u> <u>%</u>
0 - 19	71.0	24.2	4.8
20 - 49	37.5	60.4	2.1
50 - 99	34.4	53.1	12.5
100 - 499	28.9	64.5	6.6

That the above estimates of the spread of profit-sharing plans are not unreasonable is supported by a number of other surveys. We shall confine our attention to two of these.

The Biennial Fringe Benefits Survey covering 1,181 firms in 1965, and conducted by the Chamber of Commerce of the United States, supplies information as to the proportion of large and medium-sized companies (more than 100 employees) which offer profit-sharing as a fringe benefit. These surveys have shown the following trend:

1955 - 13 per cent	1961 - 17 per cent
1957 - 14 per cent	1963 - 21 per cent
1959 - 15 per cent	1965 - 19 per cent

Bureau of Labor Statistics Estimates—Perhaps the most comprehensive compilation of data with respect to the incidence of profit-sharing in the United States was reported recently by the Bureau of Labor Statistics, United States Department of Labor. 8/ The data are estimates based on

surveys, largely of medium-size and large employers in metropolitan areas. Therefore they cover an employer base different from that utilized in the Dun and Bradstreet survey discussed earlier. They also apply somewhat different rules for defining a profit-sharing plan. The following criteria were set down:

1. The plan must represent a commitment by the company to make periodic contributions based on profits.
2. The plan must contain a formula for the allocation of profit shares among the participating employees.
3. The plan must provide a method for distributing profit shares—current, deferred, or a combination of current and deferred distribution.
4. The plan must be communicated to the employees.
5. The plan must be applicable to a majority of plant or office employees.

The survey found 1.4 million plant workers and over 750,000 office workers employed in establishments providing profit-sharing plans. Coverage applied to 12 per cent of 12 million plant employees and 22 per cent of 3.5 million office workers within the scope of the study.

The study supports the conclusion that increasing proportions of workers in United States industry are participating in profits today, compared to a decade ago. In a study undertaken in 1955-56 the Bureau

found that 7 per cent of plant workers and 13 per cent of office workers were employed in establishments providing profit-sharing plans in 17 areas surveyed. 9/ In 1965-66 the proportion of coverage for the same worker groups in substantially comparable areas were 12 per cent and 25 per cent, respectively.

Types of Profit-Sharing Plans—The survey reveals a great predominance of deferred distribution types of profit-sharing plans for both plant and office workers. Ten per cent of plant workers and 17 per cent of office workers were employed in establishments providing such plans, compared to a total coverage of all plans combined of 12 per cent and 22 per cent for the two groups, respectively. The current distribution plans covered only 1 per cent of plant and office workers. Combination current and deferred distribution plans covered 1 per cent of plant and 2 per cent of office workers. Two per cent of office workers and less than one-half per cent of plant workers were covered by elective distribution plans. 10/ The major findings of the Bureau of Labor Statistics (BLS) study are summarized as follows:

Profit sharing applies to a relatively small but growing proportion of workers in United States industry. A greater proportion of office clerical workers share in profits than do plant workers. More workers in the smallest manufacturing establishments are covered by profit-sharing plans than in the largest establishments surveyed. The opposite is true for retail trade and finance. Although the proportion of plant (10 per cent) and office workers (15 per cent) covered by profit-sharing plans in manufacturing is small, the data show not only growth in coverage for this industry division, but that this growth is keeping pace with the growth in coverage observed for non-manufacturing divisions (excluding public utilities). The bulk (four-fifths) of profit-sharing coverage takes the form of deferred distribution plans. Establishments having profit-

sharing plans provide regular pension plans to a much smaller proportion of their workers than do establishments not having profit-sharing plans. A much larger proportion of establishments not covered by union agreements have profit-sharing plans than do establishments covered by union agreements. 11/

In establishments in which a majority of workers were covered by union agreements, 6 per cent of both plant and office workers were covered by profit-sharing plans. In non-unionized establishments, 26 per cent of plant and 25 per cent of office workers were covered by profit-sharing plans.

The Incidence of Profit-Sharing Plans in Canada

Unfortunately, no equally comprehensive statistics are available to depict the growth and present spread of profit-sharing plans in Canada, although most spokesmen for the profit-sharing movement as well as independent studies refer to a rapid rate of growth. The highly competent study of Canadian plans by the National Trust Company 12/ refers to "...a continued and rapid growth of these plans in Canada" but goes on to cite the United States data. The reason obviously is that "available statistics on the growth and number of profit-sharing plans in Canada are meagre".

However, scattered information may be cited. The most important, if not the exclusive source of recent information, is that of plans registered under various sections of the Income Tax Act. The Act provides for registration under three headings:

1. Profit-sharing pension plans
2. Deferred profit-sharing plans (Section 79C)
3. Employees profit-sharing plans (Section 79)

1. Registered profit-sharing pension plans 13/—Whereas, under the tax laws of the United States, pension and deferred profit-sharing plans are treated similarly, Canadian income tax treatment differs depending on the section of the Income Tax Act under which a plan qualifies. Under plans which are registered as profit-sharing pension plans employers may deduct from income profit-sharing allocations for future service up to an annual maximum of \$1,500 per member. Eligible employees who make additional voluntary or required contributions may deduct from their personal incomes for tax purposes an equal amount. Income earned by the trust in which employer and employee contributions are made is not taxable. Finally, the benefit payable to a retired member must be in the form of a life pension.

These provisions do not differ from the requirements of registered pension plans. The only difference in concept and operation is that employers' annual contributions to profit-sharing plans are not fixed in terms either of an obligatory money purchase of benefits or of specified benefits on retirement. Annual contributions vary according to the level of profits. Employers are, however, required to make a nominal contribution, usually 1 per cent of payroll regardless of how low profits fall.

The most recent survey of pension-plan coverage discloses that in 1960 there were 211 profit-sharing pension plans covering 23,616 members. By 1965 the number of plans had increased to 351, covering 28,253 members. It is of interest to note that the average number of members per plan

decreased from 112 in 1960 to 80 in 1965. In effect, the additional 140 plans registered in the period 1960 to 1965 covered an average of 33 members per plan. 14/

A breakdown by size of membership in the 351 profit-sharing pension plans disclosed in the 1965 survey emphasizes the preponderance of plans with small coverage of employees. As will be seen in Table 7, 256 or almost three-quarters of the plans cover fewer than 50 members. The restricted coverage may mean either that small firms choose to use profit-sharing as a means of granting retirement security to its employees or that larger firms have covered selected groups of employees by this device instead of or in addition to a regular pension plan. The available statistics do not permit one to determine which is the case. However, surveys by the Dominion Bureau of Statistics of Trusteed Pension Plans in 1965 and 1966 call attention to the fact that "...over the past few years 'top-hat plans' covering executives, or other key personnel have been prominent among the new funds coming into existence". In 1966, for example, 390 of the 470 new trust funds established were in this category. 15/

Pension plans of all types grew from 8,920 in 1960 to 13,660 in 1965. Profit-sharing pension plans constituted approximately the same proportion of all plans in both years: 2.4 per cent in 1960 and 2.6 per cent in 1965. The trend in the United States stands in contrast.

2. Deferred profit-sharing plans registered under Section 72C (based on legislation introduced in 1961) are more flexible with respect to payment out of the profit-sharing trust fund to members who retire. Also, partial or full withdrawal is permitted during employment. On the other hand, employee contributions are not tax deductible. Tax on the employer's

TABLE I

DISTRIBUTION OF PROFIT-SHARING PENSION PLANS BY MEMBERSHIP SIZE GROUP
CANADA, 1965

<u>Number of Members</u>	<u>Plans</u>		<u>Members</u>	<u>Percentage</u>
	<u>Number</u>	<u>Percentage</u>		
1 - 4	48	13.7	116	.4
5 - 9	61	17.4	425	1.5
10 - 14	42	12.0	505	1.8
15 - 49	105	29.9	2,821	10.0
50 - 99	34	9.7	2,367	8.4
100 - 499	52	14.8	10,094	35.7
500 - 999	5	1.4	3,741	13.3
1,000 - 4,999	4	1.1	8,174	28.9
5,000 and over	0	.0	0	.0
Total	351	100.0	28,253	100.0

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Source: Pension Plans Section, Dominion Bureau of Statistics. A special breakdown based on data collected in survey of pension plan coverage in 1965.

contribution is deferred until year of receipt by members. At that time, the tax on lump-sum withdrawals may be reduced by applying the member's average tax rate for three previous years, if this is more favorable.

Amendments enacted in March 1967, introduced some modifications in the criteria governing registration under Section 79C, but did not change its basic form. Registrations under Section 79C have been as follows: 16/

1961 -	11
1962 -	88
1963 -	151
1964 -	375
1965 -	500

No estimate is available for 1966; but in 1967, prior to the amendments of that year, 1,150 deferred profit-sharing plans were registered under Section 79C. This is evidence of a substantial increase in the past two years in the number of registered profit-sharing plans. Moreover, as of the same date, when registrations were temporarily "frozen", approximately 700 applications were pending. As of March 1968, the author is informed, some 150 of the previously registered plans have terminated while approximately 450 of the 700 applications pending as of a year earlier have been withdrawn due to the new requirements. 17/ In as much as the amendments introduce no drastic revisions in principles governing eligibility of plans under Section 79C, it may be assumed that many of the applications withdrawn will be resubmitted after the necessary alterations are made in their provisions.

3. Employee profit-sharing plans were first qualified under legislation enacted in 1949. An employee is taxed in the year of allocation

on his share of profits distributed, as well as on any interest or dividends credited to his account. Employee contributions, if any, are not deductible from income for tax purposes. Accordingly, any withdrawals which may be made, as provided in the plan, are not taxable.

According to the National Trust Study 18/, 33 plans were registered as employees' profit-sharing plans as of December 31, 1963. Another estimate made early in 1964 places the number of these plans at 50. 19/

Cash Plans—As far as can be determined, no compilation has been attempted which would indicate the number of cash plans in existence at the present time. However, the Department of Labour in a 1958 survey of working conditions included a question covering profit-sharing plans. 20/ Four per cent of the 6,240 establishments reported such plans. These applied to 4.6 per cent of the 758,424 plant employees covered in the survey. As for office employees, the same survey showed that 4.6 per cent of the reporting units had plans which covered 5.9 per cent of office employees out of a total of 226,973. Among industry groups in manufacturing, only the following showed any substantial proportion of employees covered. In food and beverages, 10.4 per cent of employees were covered; of these, the most important were in slaughtering and meat-packing, 39 per cent, and in grain mill products, 37 per cent. 21/ Approximately 19 per cent of plant employees in the primary iron and steel industries were covered by profit-sharing plans. In this industry 24 firms reported a total of 24,635 workers, so that the number of employees covered by profit-sharing plans amounted to some 5,000. It is probable that in large part these employees were members of a well known profit-sharing plan operated by Dominion Foundry and Steel.

Among office employees covered, substantial proportions were found in the food and beverage industries, 16.1 per cent of all employees; and iron and steel, where 8 per cent of the 3,000 employees reported in the survey were covered by profit-sharing plans. In the only other major industry group in which any sizeable coverage was reported—wholesale trade—10.7 per cent, or approximately 3,700 non-office employees were covered by profit-sharing plans and about 8 per cent, or 2,590 office employees were similarly covered. 22/

A final reference is worth citing. In May 1966, the Montreal Board of Trade and the Chambre de commerce du district de Montréal conducted a joint survey of wages and working conditions in the Montreal area. The statistical findings were published in the Annual Joint Survey of Hourly-Paid Employees, August, 1966. Information covered 340 firms employing 95,011 hourly-paid employees. It is reported that among these firms, 4 per cent, or some 14, reported having a profit-sharing plan in operation and that these plans covered 2 per cent or approximately 2,000 employees. It should be remembered, however, that the survey was confined to hourly-paid workers and that these were largely in unionized enterprises. It is reported, for example, that some 92 per cent of all employees in this survey are covered by collective labour agreements.

Termination of Profit-Sharing Plans

The number and rate of discontinuance compared with the volume of new plans introduced could offer evidence of the spread and permeability of the idea of profit-sharing. Moreover, study of the reasons for discontinuance might indicate desirable and undesirable provisions of profit-sharing plans. So far as Canada is concerned, no information has come to

the attention of the author which would permit the suggested analysis of plan terminations.

For the United States, studies have been made of discontinuance from time to time. It appears, first, that a large proportion of plans introduced in the early decades of this century were discontinued during the depression. These were predominantly cash plans. These studies are somewhat imprecise in that a definition considerably broader than the one accepted in current usage was given to profit-sharing plans.

The most recent analysis of terminations of deferred profit-sharing plans is in a study sponsored by the United States Bureau of Labor Statistics. 23/ This study, based on examination of terminations of plans registered with the United States Internal Revenue Service, shows that some 3,600 profit-sharing plans were terminated during the years 1955-1965. More than half were less than six years old and three out of five covered fewer than 25 employees. At the time of termination these plans covered approximately a quarter of a million employees.

On the average, approximately 1.4 per cent of active profit-sharing plans were closed out during the period. The number of plans terminated increased in the later years but remained fairly low as a percentage of the sharply increasing number of plans registered.

The major reasons for discontinuance of plans were found to be the following:

	Per cent of	
	<u>Plans</u>	<u>Members</u>
Merger or Sale	38.1	35.7
Financial difficulties	19.0	11.4
Business dissolved	20.0	11.3
All others	22.9	41.6

The classification of terminations by simple causes undoubtedly involves some masking of ultimate reasons for discontinuing a plan, as, for example, the possibility that financial difficulty may have been the factor behind merger or sale.

Summary

This review of the incidence of profit-sharing plans in the United States and Canada indicates that the growth of plans in the United States has been substantial; the evidence one is able to gather warrants the conclusion that the increase in Canada has been slower although the growth in Section 79C plans has been relatively sharp. No evidence is available with respect to the incidence of cash plans in Canada, but the conclusion that expansion has been modest is reinforced by the scattered comments collected through correspondence with knowledgeable persons in British Columbia and the Maritime Provinces, to the effect that in those areas profit-sharing plans are very little in evidence.

In the United States, according to Metzger, cash plans have been found particularly prevalent among very small firms, although one must conclude on the basis of the evidence presented by him and by the BLS study that the major growth has occurred among deferred distribution plans.

Nevertheless as we have seen, many Canadians active in this field are convinced that the spread of plans has been sharp, although not at a rate as high as that in the United States. The reason for the lag is usually ascribed to less advantageous income tax provisions governing deferred profit-sharing in Canada.

A brief by the Canadian Section of the Council of Profit-Sharing Industries 24/ asks the question: Why has Canada appeared to be lagging behind the increase in profit-sharing activity recorded in the United States? The chief answer suggested in this brief and apparently in submissions to the Minister of Finance and others over a number of years has to do with the differences in the tax treatment of deferred profit-sharing plans. In the United States, the employee is not taxed in the year in which his share of the employer contribution is credited, whether vested contingently or absolutely. Tax liability on the employer contribution is incurred only when the proceeds of the account are actually received by the employee or his beneficiary. So far as the earnings of the fund are concerned, the employee is taxed on his share of them only when he actually received them. The employee gets the advantage of tax rates substantially lower than the normal graduated income tax rates both on the employer's contribution and on the earnings of the fund when a complete withdrawal is made because of termination of the employee's services or death. This enables the employee to accumulate a large balance in the fund and then draw it out all at one time at a maximum tax rate of 25 per cent, and in most cases at a substantially lower tax rate.

The brief acknowledged that many of the relative disadvantages of the Canadian income tax treatment of deferred plans were removed through

enactment of Section 79C, but requested certain additional changes. The Council recommended amendments which would permit participants in deferred profit-sharing plans to deduct contributions they make to such plans from income for purposes of calculating tax. This is now permitted when members or employees contribute to pension plans or when the self-employed contribute to registered savings plans.

But significantly, the Council was calling for more than amendments to the Income Tax Act. It was asking the government to take a more positive position in favour of the profit-sharing principle. "For example, a great deal might well be accomplished by merely taking a stand for profit-sharing and drawing its advantages to the attention of the Canadian people. Also, more statistical data, surveys and studies on the subject would be valuable." 25/

In response to the argument that it would be inconsistent to permit benefits under profit-sharing plans which are not available to pension plans, i.e., to permit lump-sum withdrawals before retirement and at the same time grant similar tax treatment to both, the Council argued that profit-sharing "...should be used not only as a formula for providing retirement income, but as a system of wages which is perhaps more in keeping with contemporary economics than others presently in use". 26/

REFERENCES

- 1/ B.L. Metzger, Profit-Sharing in Perspective (Evanston, Illinois: Profit Sharing Research Foundation, Second Edition, 1966), p. 1.
- 2/ United States Treasury Department, Internal Revenue Service, Laws and Regulations Relating to Employee Pension, Annuity, Profit-Sharing Stock Bonus, and Bond Purchase Plans Including Plans for Self-Employed Individuals, Publication Number 337, 1966, p. 13.
- 3/ These descriptions are drawn from Wages and Related Benefits, Part II, Metropolitan Areas, United States and Regional Summaries, 1965-66, United States Department of Labor, Bureau of Labor Statistics, Bulletin Number 1465-86, May, 1967, p. 90.
- 4/ Metzger, op. cit., Chart 1A, p. 17. Cf. Gunnar Engen, "New Direction in Profit Sharing", Monthly Labor Review, Bureau of Labor Statistics, United States Department of Labor, July, 1967, p. 4 for the following estimate: from July 1955-June 1966, IRS approved 46,859 deferred plans covering 2,831,933 participating employees. During the period there were 3,502 plans terminated.
- 5/ Metzger, op. cit., p. 17.
- 6/ Ibid., p. 26.
- 7/ Ibid., p. 31. Based on a survey by Dun and Bradstreet.
- 8/ See Wages and Related Benefits, Part II, May, 1967; and an article based in part on these data: Gunnar Engen, "A New Direction and Growth in Profit Sharing", Monthly Labor Review, July, 1967, pp. 1-8.
- 9/ See Wages and Related Benefits: 17 Labor Markets, 1955-56, BLS, Bulletin Number 1188, pp. 81-82.
- 10/ Wages and Related Benefits, Part II, May, 1967. Elective plans give members a choice as to form of distribution of profits to be shared.
- 11/ Ibid., p. 94.
- 12/ National Trust, A Study of Profit-Sharing Plans in Canada, Toronto, December, 1965, p. 5.
- 13/ The summary of criteria for registration of three classes of deferred profit-sharing plans is based on National Trust, op. cit.; and Mercer Actuarial Bulletin, William M. Mercer Limited, Volume 12, Number 9, (September, 1962).
- 14/ Dominion Bureau of Statistics, Labour Division, Pension Plans Section, Survey of Pension Plan Coverage, 1965, December, 1967, Table E, p. 9.
- 15/ Dominion Bureau of Statistics, Labour Division, Pension Plans Section, Trusted Pension Plans Financial Statistics, 1966, December, 1967, p. 7.

16/ Source: Canadian Pension Conference, 1966.

17/ The information in this paragraph was supplied by the Pensions and Profit Sharing Plans Section of the Department of National Revenue-Taxation in a letter dated March 7, 1968.

18/ National Trust, op. cit., p. 8.

19/ Profit-Sharing in Canada, a brief submitted by Canadian Section of the Council of Profit-Sharing Industries to the Royal Commission on Taxation, January 21, 1964, p. 14.

20/ Economics and Research Branch, Department of Labour, Working Conditions in Canada, 1958, Ottawa, 1959, Table I, p. 6.

21/ It is likely that the report on the slaughtering and meat-packing industry incorporates in large measure the plan operated by Canada Packers Ltd. In 1958 this company had a cash distribution plan, which has since been converted into a deferred profit-sharing plan. Information from the company suggests that the allocations under the profit-sharing plan in 1966 ran between \$43 and \$100 per plant employee depending on seniority. It is also known that one of the plans in grain milling products has since been discontinued.

22/ Op. cit., Working Conditions in Canada, 1958, p. 19.

23/ Emerson Beier, Profit-Sharing and Pension Plan Termination. Monthly Labor Review, July, 1968, pp. 37-40.

24/ Profit-Sharing in Canada, a brief submitted by Canadian Section of the Council of Profit-Sharing Industries to the Royal Commission on Taxation, January 21, 1964.

25/ Ibid., p. 15.

26/ Ibid., p. 18.

CHAPTER V

PROFIT-SHARING: IMPLICATIONS AND PROSPECTS

Profit-sharing may be viewed from two aspects. The first conceives of it as an incentive mechanism designed to maximize the motivations of employees by creating a climate in which work groups and individuals see themselves as contributing members of a larger organization. In such a work environment, it is held, the degree of conflict between owners and workers is reduced and the economic success of the enterprise is promoted.

In an extension of this view to the level of the economy some see this device as capable of winning adherents to the principles of private enterprise. The connecting links are twofold: the employee who comprehends the relationship between his own work and the profitability of his company will likewise understand the role that profits play in a competitive economy. Moreover, the shares accruing in a deferred profit-sharing plan, through capital growth, are likely to tie the interests of the employee to growth in the economy. In one variant of this position it is maintained that such spread of ownership is essential in face of reduced demand for labour services in an automated economy and hence the ultimate relative decline of labour service as a source of income.

The second conception focuses on that feature of profit-sharing which makes supplementary income payments dependent on the size of profits. This view emphasizes the potential impact of profit-sharing, widely spread among firms, on relationships at the level of the economy between productivity, costs, and prices. In other terms, profit-sharing has been proposed as a means of dampening the race between wage rates and productivity during

periods of tight labour markets. Improvement in the income of labour comes out of a contingent share in profits and not as an addition to stipulated hourly rates.

The several aspects of profit-sharing will be considered in turn.

An Incentive System

When employers are asked to state their objectives in instituting profit-sharing plans, responses generally emphasize the incentive inherent in the expected monetary reward. But advocates insist that the monetary incentive must be imbedded in a climate where workers absorb organizational goals and are prepared to follow the practices necessary to their accomplishment. As one writer suggests, in principle, a profit-sharing program can be thought of as "a plan for the psychological reorganization of a company." 1/

Profit-sharing plans are seen as the ultimate form of plant-wide incentive arrangements, alternative to individual or small group incentive plans where these become inoperative under changes in technology which make measurement of results and the setting of standards difficult or impossible. Whereas other large group incentive plans link gains to reductions in costs of production, the profit-sharing plan ties financial rewards to the ultimate measure of the success of the enterprise — annual profits. 2/

It is difficult indeed to assess the validity of the claims made for profit-sharing on incentive grounds. Undeniably, a large number of firms have been successful in operating profit-sharing plans. But this raises the problem of indentifying and specifying the source of that success. Assessment is difficult because the promotion of a profit-sharing program in an enterprise becomes for many employers a veritable crusade

embodying publicity, communications to the work force, a continuous drive for cooperation and teamwork. But most evaluations of profit-sharing also note the importance of alert and capable management. In the end, therefore, one is unable to separate the contribution of financial incentive from those of capable management, the satisfaction of social psychological needs and, finally, chance elements, in the profitability and growth of the enterprise. As the National Trust Study 3/ points out, "When assessing the effectiveness of profit-sharing, most of the factors prove to be intangible and difficult to measure".

McKersie ascribes the following advantages to profit-sharing as an incentive device:

Profit-sharing 1) focusses attention on all cost, 2) encourages the acceptance of change and any action that might produce larger profits, 3) identifies the achieving unit—through the use of profit incentives it is possible to motivate sub-units within the organization, and 4) represents the test of the market, and as such provides a flexible and accurate norm of performance. 4/

On the other hand, he notes, the link between performance and financial reward is weakened by the fact that profits depend on factors over which workers, particularly on the manufacturing side, have little or no control. Nevertheless, in a firm in which a combination of favorable external conditions permit profitable operations and expansion, it seems reasonable to think that a vigorous, capable management devoted to high performance of the firm can create a climate in which employees are carried along. But in such a situation high performance on the part of employees may as readily be ascribed to reasonable assurance of stable employment, job security, and opportunities for promotion, as to the promise of supplemental financial rewards.

It is worth noting that McKersie, in the remarks quoted earlier, is referring to cash distribution plans. He excludes deferred profit-sharing plans from his list of large-group incentive arrangements, regarding the former as "fringe benefit" provisions.

We have seen that cash plans are indeed widespread in the United States, but these appear to be found most commonly in the very small firms. ^{5/} The BLS survey, on the other hand, indicated that the sharp expansion in the ten-year period 1956-1966 was predominantly among plans in which profit shares were deferred.

The National Trust Study ^{6/} of 35 plans showed that over the five-year period preceding the study, the average annual rate of contribution amounted to 8.28 per cent of total members' earnings. Metzger, reporting on findings from a study of firms included in the Dun and Bradstreet survey, notes that the modal proportion for cash plans was 10 per cent with most paying less and a small number paying between 15 per cent and 30 per cent. In deferred plans about a third of the sample firms paid out 15 per cent of member compensation. All of the others paid less with concentrations of firms at 5, 8, and 10 per cent. ^{7/}

It is clear that employees in many profit-sharing companies enjoy a handsome supplement to their annual earnings. Moreover, many with long years of service build up a sizeable estate to be drawn on, in most plans, for various exceptional contingencies or available as a source of retirement income. However, the precise meaning of this as a financial incentive depends on what the employee could expect by way of annual earnings in alternative employment in the absence of a profit-sharing plan. The

meaning of a 10 per cent cash supplement to earnings cannot be properly assessed in the absence of comparative information on hourly rates. Would an equivalent amount have been available as a basis for bargaining between a union and the management of the firm? Unions argue that they take profit levels, past and prospective, into account in formulating their demands on employers.

In the case of the deferred profit-sharing plan, there is furthermore, the question whether the allocation is a substitute for a private pension plan based on predetermined benefits or on an obligatory annual contribution by the employer for the purpose of providing retirement benefits. The equivalent value of such a private pension plan would have to be deducted to get at the financial significance of the deferred plan. The study ⁸ by the United States Bureau of Labor Statistics discloses that for 28 per cent of plant workers covered by profit-sharing plans this is the only pension-building provision. Also, in establishments reporting profit-sharing plans 43 per cent of members were covered by an annuity-type profit-sharing plan, one which provides that at retirement an annuity payable over the retiree's life will be purchased with whatever funds have been accumulated to his credit.

Moreover, in evaluating the financial benefit provided by the deferred profit-sharing plan, the savings feature should be noted. By virtue of the operation of compound interest and the trend of capital gains in an economy growing at even a moderate rate, the trust fund credits build up over the work-life of a profit-sharing member into a substantial sum. Under tax laws which permit deductions from current tax liabilities for employees contributions, this program has additional advantages. It will

be seen, however, that the deferred payments plan is, in effect, a forced savings program for modestly paid production workers.

An employee of Dominion Foundry and Steel, who by 1966 had accumulated the maximum fund under the company's well known deferred profit-sharing plan would in that year have earned \$486.11 on his own past contributions plus \$1,702.80 on past allocations of the company, a total of \$2,188.91. The company profit-sharing allocation in that year amounted to \$1,185.95.

In 1966, an original member of the profit-sharing plan initiated in 1949 by Supreme Aluminum Industries Limited, would have ended the year with interest of \$1,205.00 on past credits in the profit-sharing fund. For 1966 his profit-sharing benefits included \$195 in a deferred contribution and \$715 as a cash distribution.

Profit-Sharing and Industrial Peace

These are undoubtedly sizeable yields for persons in the income brackets of production workers. But it is questionable whether it is the prospect of this monetary gain which is the determining factor in the increased motivation claimed to be found by many employers in profit-sharing companies. Nevertheless, it is the relationship between this creation of a personal estate, based in large part on returns to property, and the attitudes of plant workers, that many see the solution to the long-standing conflict in industry between workers and owners. The proposition advanced is that a personal stake in the operations of the firm and of the economy as a whole builds awareness of the role of profits in private enterprise economy.

Writing in 1961, Peter F. Drucker disputed the validity of this claim: he asserted that the debate over the virtues of profit-sharing as a tool for promoting industrial peace was founded on an erroneous notion. He held that the profit-sharing plans to which such claims were relevant were the cash distribution type. But those he saw growing were of two types: "the luxuriantly growing executive pension plan financed out of profits; and the modestly prospering plan that finances standard benefits out of a share in the profits". 9/ So far as cash plans were concerned, he insisted that they were confined to small companies and even there the plan was a rare exception, possibly one in every 100 firms or so. 10/

He argued that only in the small firm could one establish a link between productivity and profit and even there the share in profits could not be large enough to make a difference, in view of the proportion of sales which is already being paid out in wages and salaries and the small absolute amount of profit per sales dollar.

The upsurge in deferred profit-sharing, Drucker thought, was largely a case of providing pension plans for salaried employees earning more than \$8,000 or \$10,000 a year. They are advantageous because of the tax benefits permitted under provisions of the Internal Revenue Code. Their purpose is tax saving, not industrial peace or, as a rule, an incentive to productivity. In the large companies which do have profit-sharing plans, the net result is to provide an insurance program based on fluctuating annual payments instead of a fixed obligation. The few cases of spectacular return, such as in the case of Sears Roebuck, are held to be the result of investment in the stock of a successful company, rather than examples of profit-sharing per se.

However, most advocates of profit-sharing, rejecting Drucker's views, argue that the technique of profit-sharing does have the elements necessary for establishing a mutuality of interests between labour and the owners. The key to developing such a community of interests is to give workers an interest in the system through widespread diffusion of the ownership of capital. The advocates of profit-sharing see in this technique a means of spreading such ownership. But this view is amplified into a full-some conception of change in the structure of ownership and the distribution of income. Some Canadians have taken on the task of promoting the ideas of Louis Kelso and Mortimer Adler as expressed in The Capitalist Manifesto.

The problem and the solution are given expression in the position taken by Frank S. Capon, vice-president and a director of DuPont of Canada, Ltd. He argues that technological improvements enable the production of more wealth with fewer man-hours. The common tendency to measure this gain in terms of output per man-hour leads to the mistaken impression that labour is the factor of production responsible and thus to repeated demands for higher wages. As wages go higher, so does the incentive to mechanize. Ultimately employment falls and the government must step in with welfare programs. But, in fact, the increased wealth is the result of expanding use of capital. The more this proceeds, the smaller the contribution to the total output that can be ascribed to labour services. Thus, if general affluence is to be accomplished under conditions of freedom, this new wealth must be distributed on the basis of ownership of capital. 11/

The means by which it is proposed to spread ownership is to arrange for persons to borrow in order to acquire shares in new capital formed. Initially, borrowers might be required to make a down payment

of 10 per cent to 20 per cent, but the loan would be paid off through the dividends yielded by the earnings on the new capital. During the period in which the new capital is amortized, government would declare a temporary holiday on corporation and personal income tax in proportion to the new capital under formation. Government would also restrict corporations in the amount they could retain from earnings realized through the new capital.

In essence, this proposal extends the concept inherent in profit-sharing. Under the latter, individuals who share in profits under plans which are registered with the government are relieved of certain personal tax liabilities. Such allowances provide a tax advantage over funds accumulated through savings normally made by a taxpayer. Under the Kelso Plan, government would also relieve earnings growing out of new capital formation from corporation taxes. In other words, through government subsidy, the plan would accomplish two things: increase the amount of new capital formed and distribute its ownership more widely. The Kelso Plan also has a role for organized labour to play. Organized labour could negotiate the provision of some or all of the new capital required by a corporation and then, on a group basis, use the indicated mechanisms of borrowing. At the conclusion of the credit stage, when the new capital becomes old capital, that is after it has earned enough to repay the original debt, it can be dispersed to the individuals in the union local concerned on the basis of their cumulative earnings during the capital formation period.

The plan as advanced for Canada has one additional attractive advantage on which its advocates insist. It presents an opportunity to increase dramatically the volume of capital held by Canadians without discrimination against foreign funds invested in Canada.

These views have apparently become part of the program being sponsored and promoted by the Canadian Section of the Council of Profit-Sharing Industries. The brief prepared by the Section and referred to earlier includes the following comment:

Profit-sharing should be viewed not only as a formula for providing retirement incomes but as a system of wages which is perhaps more in keeping with contemporary economics than any other presently in use. In an earlier submission to this Royal Commission, Mr. Frank S. Capon, vice-president of DuPont of Canada Limited, observed that the sources of wealth appear to be arising more and more from the ownership of capital and that technology is creating more leisure time. If these observations are correct, then alternative sources of remuneration are essential to the worker who is being gradually displaced—displaced both in the sense that he becomes unemployed absolutely and to the extent that his hours of work are measurably reduced.

Properly conceived, a profit-sharing plan can provide this alternative source of remuneration because it recognizes the worker's share of the value of the product which is produced by his labour. Also, profit-sharing is generally a "saving wage" which allows him to participate in capital ownership in the company by which he is employed. By thus participating in the ownership of the enterprise, the worker would benefit from every increase in productivity that flows from his own labour and from invested capital. 12/

Profit-Sharing by Decree in France

The idea that tax machinery of the state can be used to promote widespread ownership of capital, a reduction in labour-management conflict and, possibly, a solution to the rejection by trade unions of income policies which fix on wages alone, is expressed in a program introduced in France during the summer of 1967. General de Gaulle has long regarded a system of worker participation in the revenue of the enterprise as a weapon with which to attack the "class struggle". He has stated, "To cling to wages alone is to maintain a permanent class struggle." 13/ His first attempt to promote participation of workers in the fruits of expansion of the enterprise took the form of an ordinance promulgated in January 1959.

This provided for voluntary arrangements under which certain tax concessions were granted to firms which entered into agreements for profit-sharing. The results attained were meagre indeed, since very few agreements were concluded. It was apparently deduced that only an obligatory program would accomplish the stated purposes.

An ordinance 14/, dated August 17, 1967, and introduced under special powers voted by the French Parliament before its recess in June 1967, states that it is now indispensable that the association of workers in the expansion and sharing in the fruits of such expansion be given an obligatory character. It is intended that this be a social reform, promote the progress of the economy and, in particular, increase the investment of firms. The ordinance makes clear that it is not intended to diminish in any degree the responsibility and authority of the management, but holds to the promise that such participation can promote the establishment of new relations between workers represented by unions and the owners of enterprises.

The major provisions of the French plan for profit-sharing may be briefly sketched. 15/ In the first place it is to apply only to firms with more than 100 workers. However, smaller firms may voluntarily enter into the system by concluding agreements similar to those required for firms obligated to adhere to the new regulations. This requirement may be met through a collective bargaining agreement (i.e., at the industry or regional level), a local agreement at the plant level with union representatives who are also employees, or with the works committee (comité d'entreprise).

Calculation of the workers' share of profits proceeds as follows: from profits subject to tax, there is first deducted an amount representing a return on capital at the rate of 5 per cent; half of the remaining sum is multiplied by the proportion that wages and salaries are of value added. The resulting figure represents the reserve available for allocation to workers. This amount is deductible from the corporation tax base or the tax base of owners of non-incorporated establishments. Employees are not subject to tax on the amount credited to them as their share of profits. Firms are authorized to constitute, free of tax, a reserve for investment equal to the sum allocated for employee participation. This fund becomes subject to tax if it is not invested within a year.

Distribution among employees is determined as a proportion of wages received, within a ceiling to be fixed by decree. Only those with at least three months of service are eligible. The distribution to employees may take one or another of the following forms: the first would set aside the worker's interest in the form of stock in the company. Because the stock market is limited and there may not be a market for the stock of small—and medium-sized companies, a second alternative is to set up a fund which the firm can draw on for its own investment purposes. Workers rights in this fund may take the form of notes or bonds. Third, the amount may be invested in a kind of national mutual fund of mixed investments or they may be added to the savings plans of individuals who are members of a savings plan. The amounts received as shares in profit by workers are not negotiable or paid over for at least five years.

In effect, this plan involves a distribution of a share in profits in an amount which the enterprise can, in effect, recover through tax

allowances. It is intended to provide an impetus to investment; but an equally significant purpose is obviously the attempt to increase savings on the part of workers.

Both French unions and employers have been opposed to such profit-sharing plans and neither has taken up the new decree with any enthusiasm. Unions have opposed profit-sharing as a "snare and a delusion". Employers have opposed the idea as an intrusion on the prerogatives of management and ownership.

Profit-Sharing and Incomes Policy

Among the purposes intended to be served by the French profit-sharing scheme is the diversion of worker earnings from consumption to savings; and to provide that part of earnings come out of profit shares rather than being imposed as a fixed wage-cost on the enterprise. Many who are not particularly sold on the idea that profit-sharing can work a revolutionary change in the incentive system within the plant or the firm, nevertheless think the technique has some validity as an approach to an incomes policy. The goal of the latter to dampen wage increases which tend to outrun productivity would be fostered if a part of the compensation of workers took the form of a contingent payment based on the profits of the firm. This idea was expressed, for example, by Neil Chamberlain as follows:

If the wage-price push is looked on as purely a temporary phenomenon calling for short-run accommodations, one's attitude towards governmentally devised but voluntary guideposts might be more favorable than if the wage-price problem is conceived in longer-run terms. The possible alternatives to simple hold-the-line bargaining would be more limited. But if wage and price

elevation is viewed as a more lasting phenomenon, arising in a society which has made full employment and a constantly rising real standard of living its dual goals, then different policies are required. On the one hand, a firm can seek partial relief through improvements in technology with a different capital-labour ratio and a changing skill mix. On the other hand, it may find it desirable to explore more seriously the kind of public policy—incomes policy—which can cope with the persisting problem. The latter involves more fundamental questions than are raised by a short succession of specific income bargains, and opens up the possible desirability of more far-reaching adjustments in the wage relationship.

One candidate for consideration is some updated version of profit-sharing. If our social aim is price stability or a reasonable approximation thereof, and if we seek to hold wage increases to something in the vicinity of the national average increase in productivity, and if we are realistic enough to expect that the most we can expect from business on the price front is no price increases, but not actual price decreases, then we have a sure-fire recipe for above-average profits in those companies where there has been above-average productivity improvement. We can scarcely expect a successful hold-the-line policy on wages in such instances, and some form of profit-share or investment share or savings share may make good sense. My intent, however, is not to advocate profit-sharing but to suggest that serious attention to more innovation programs is called for if you view the wage-price problem in a longer time perspective. 16/

The same theme is developed by A. H. Raskin. 17/ The incomes policy expressed in the guideposts elaborated by the Council of Economic Advisors was shattered through the failure of employers in high efficiency industries to lower prices. Instead, they ended up with windfall profits. Had profit-sharing been available as a safety valve workers would have been more prone to stick to a level of wage increases within the productivity standards. 18/

Raskin asserts, furthermore, that union leaders are becoming more receptive to the idea of wage plans geared to sharing efficiency as measured

by productivity or profits. The reasons are that they are becoming educated to the implications of wage increases outpacing price increases and are apprehensive about the more rigid controls likely to be imposed in the face of major strikes over wage issues. The evidence for such a change of position on profit-sharing, Raskin finds in the statements of Walter Reuther, in the Kaiser Plan, and in a similar plan then being discussed by the United Steelworkers and major companies in the can industry.

According to an article in Business Week, "The request for a share of management profits will appear with increasing frequency among unions' bargaining demands. This is the prediction of experts who have watched the growth of profit-sharing plans in the past decade." 19

Three reasons are cited for fresh union interest in profit-sharing:

1. The sheer magnitude of corporate profits.
2. Although unions downgrade the effectiveness of the administration's wage-price guideline policy, they prefer not to defy it publicly if another course is available. Profit-sharing is a way of winning bigger benefits for workers in industries with high profits without shattering the guideline.
3. Finally, many union officials now feel that the floor under wages and fringes is firm enough to enable at least a gamble on management profits. The historical opposition to profit-sharing sprang from the interest of workers in good wages and fringe benefits without depending on fluctuating

profits. Again, the chief evidence adduced in support of the claim that a new era of union interest in profit-sharing is opening are the several productivity-sharing plans.

The Union Position on Profit-Sharing

The evidence in favour of the argument that the union position on profit-sharing has changed from one of hostility to acceptance is not conclusive. It is true that pronouncements by the UAW appear to indicate acceptance of the non-inflationary character of profit-sharing but until the union's position is tested in actual negotiations one cannot be certain that it is ready to exchange a current increase in whole or in part for a share of profits.

In essence it is doubtful whether the policy position of union leaders has in fact changed. William Green, then president of the American Federation of Labor, in testimony presented in 1939 to the Vandenberg sub-committee, which was investigating profit-sharing plans, declared:

We believe that the first obligation of industry... is to provide for payment of a wage and to establish wage and working standards through collective bargaining and that the wage established and the standards agreed upon should provide for the payment of an income to the worker that would insure him and his family a living in decency and comfort.... There should be no profit-sharing until that definite standard wage has been established and paid.

Then if the earnings of the industry will justify an equitable distribution of the profits of industry between investors, management, and employees, let it be done, with a full understanding and in full cooperation with the representatives of the workers. The one trouble about profit-sharing, as

practiced by a number of corporations, is that it has created suspicion, distrust, because the workers know nothing about the basis upon which the profits were distributed. If it is to be put into effect in a practical and satisfactory way, there is a great need of frankness and open dealing between the management of the corporation and the workers themselves. Let the workers know the truth. "These were the profits. This is the net income; here are the figures, and we propose to make an equitable division of these profits". 20/

The UAW confronts the issue in light of the changes in collective bargaining and in national economic policy since the days of William Green. In a statement 21/ elaborating proposals for bargaining in the 1967 negotiations with General Motors, the UAW decries the conditions under which negotiation of a new contract normally takes place. The heat of the conflict robs both parties of the perspective necessary to arrive at a settlement that will assure equity over the long pull. The UAW proposes to give the process of negotiation a new dimension, one that would remove the unnecessary stress of collective bargaining. The new dimension is profit- or equity-sharing, "...which would free both General Motors and the UAW from that uncertainty about the future which is one of the most serious obstacles to reasonable negotiations and an equitable agreement."

The essence of equity-sharing, according to UAW, is simply the extension to workers of the same principle of compensation which determines the incomes of General Motors executives and stockholders. The stress in collective bargaining, it is pointed out, arises from the fact that neither management nor labour really knows what the true equity of the workers would be over the full term of the contract. Each party is sparring in a kind of twilight zone of incomplete knowledge of the economic circumstances that will affect the profitability of the corporation and hence the equity

of executive stockholders and workers alike. Both sides try to maximize long-term gains on the basis of purely temporary factors.

The UAW describes the earnings policy applied to General Motors executives and stockholders. The executives provide themselves a basic salary and make provision for paying a basic dividend to stockholders. They have also provided, however, that when profits exceed a specified rate of return on investment, they shall receive in addition to their basic salary, a bonus computed by applying a percentage figure to those excess profits; and they see to it that stockholders, in more profitable years, receive extra dividends in addition to their regular dividends. Then, the UAW asks, "Why should this method of computation not be applied to workers as well as to stockholders and executives? Why should not workers receive, in addition to their basic compensation reflecting the factors normally considered in negotiating wages and fringe benefits, a share in the profits their labour helps to create?" This program, it is argued, would have a stabilizing effect on the economy since the profits that would be shared would be residual; that is to say, they would be what was left after all costs had been met and after customers had paid the prices charged for the company's products. The fact that workers were sharing in these residual profits along with the stockholders and the executives, therefore, could not in itself have an inflationary impact upon costs and prices. However, according to the UAW, this formula could be positively dangerous if it were applied in the absence of a strong and vigilant union. It would not be acceptable, even under union safeguards, as a substitute for the workers' basic equity. It is only an approach for adding to that equity. It can "provide the means whereby added improvements in wages and fringe benefits can become available to workers."

This leaves somewhat unclear the matter of the relationship between the basic wage and fringe benefits and the "improvements". One is left in doubt as to whether, if profit-sharing were included in the agreement, the UAW would forego the attempt to win wage gains based on past increases in productivity and profits. Unfortunately, since the 1967 settlement included no part of the union's equity proposal, the question must for the present remain unanswered. But even if one were to assume that the UAW is prepared to alter its bargaining strategy and accept the implication of profit-sharing, there is little evidence that a similar readiness exists elsewhere in the union movement.

When one turns to Canada, the impression is even stronger that profit-sharing as an alternative to present union wage policy is an unlikely possibility. This holds even for the Canadian branch of the UAW.

The issue was referred to, almost in passing, at the most recent Congress of the Confederation of National Trade Unions (CNTU):

...everyone knows that a business or industry pays salaries to its employees and dividends to its shareholders. However, there is a third portion that goes to neither one group nor the other. It is simply reinvested in the company. This is what we call self-financing. The question that arises is whether this third portion should belong to the shareholders. But shouldn't the workers be entitled to a share of it? This issue, now being carefully discussed in the non-communist French labour sector is important because it constitutes one of the keys to the working man's participation in economic decisions. I make only a brief reference to the matter here as one that our militants could do some more extensive research on, later on. 22/

Perhaps the most extensive appraisal of profit-sharing from the union viewpoint was made by Gordon Milling of the Research Department of the Canadian Section of the United Steelworkers of America. 23/

Writing in 1962 (but expressing views which have not changed since),

Milling felt that profit-sharing schemes had never enjoyed more than token acceptance in Canadian industry and that both labour and management were lukewarm to the idea. He listed among labour's objections the following: 24/

1. Profit-sharing plans are usually 'announced' by management; employees do not share in developing plans either through collective bargaining or even through prior consultation.
2. Profit-sharing is unsatisfactory as an incentive because profits are not directly related to workers' efforts. Market conditions, for instance, may wipe out profits at the very time that employees are showing increased productivity.
3. Employees are rarely allowed any real voice by the administration of profit-sharing plans, nor do they participate in management decisions which affect the prosperity of the firm. They are never permitted to examine the methods by which profit figures are determined.
4. Experience suggests that profit-sharing is sometimes no more than a device to discourage union organization or to maintain low wage levels.
5. Wage gains or pension plans which are granted in the form of profit-sharing will disappear if profits disappear, without any breach of contract on the employer's part.

As the union sees it, the resort to profit-sharing may appear to have certain practical advantages to the employer.

Unlike production incentives, profit-sharing is tied to profitability, not productivity. An individual or group incentive obliges the employer to pay for increased productivity as soon as it occurs, regardless of whether the overall prosperity of the firm is good or bad. A profit-sharing plan does not reward individual productivity increases unless and until these are reflected in profits. But profits depend on many factors other than worker effort: cost of raw materials, prices of finished goods, and competition with other firms, to mention only a few. 25/

The employer is attracted to profit-sharing plans because they exert no effect on wage rates as such; and unions are opposed to them because they have no control over management practices in administering these plans.

The real objections of the union are in the fact that there is no collective bargaining before the establishment of the plan, and, despite some form of consultation through committees or councils, no machinery that would guarantee employees any real influence in the formation or administration of the plan. Milling concedes that the long-service employee will find attractive the possible benefit from the impressive effects of compound interest and capital gains together with the tax exemptions granted such gains. There have been some successes. Some plans have paid off for employees. They have received regular and adequate payments out of profits; on the other hand, employees come to expect annual payments as part of a pension plan and base their spending or retirement saving on the basis of these expectations. If these are not realized, a host of disgruntled employees result. The point is that workers cannot make speculative investments:

Wages are the whole basis of a factory worker's standard of living. Especially during the years up to about 45 or 50. And for lower income levels there is very little opportunity for savings and these must be in liquid form to be drawn on for emergencies. In short, there may be room in the average worker's budget for saving, but there is no room for gambling. 26/

His doubts about the workability of such schemes hinges on the fact that management will not really relinquish its control.

...talk of participation without guarantees of genuine worker representation in management decision-making simply should not be taken seriously. Even where participation is assured, unions should avoid any commitment which means fair wages or adequate retirement income is dependent on company benefits. Employees would accept profit-sharing, if at all, as an "extra" which they can afford not to get. At the present stage of industrial development it is doubtful indeed that any Canadian profit-sharing plan will satisfy these conditions. 27/

Thus, despite all of his reservations, Milling ends up with an approach not entirely different from that expressed by William Green and more recently by the UAW—profit-sharing ought not be accepted by a union as a substitute for wages that can be secured through collective bargaining but only as long as it yields some return over and above such gains.

One may quarrel with the accuracy of Milling's description of the conditions surrounding the terms of profit-sharing plans now operated by Canadians firms. In particular, he is probably wrong in maintaining profit-sharing is or can be used to maintain lower wage levels than the market otherwise permits. On the other hand, he is probably correct in his argument that profit-sharing plans are in the final analysis under the control of management; and in his implied deduction that such control is not likely soon to be shared with trade unions in order to induce them to accept profit-sharing arrangements.

Nevertheless, there has been some experience with profit-sharing in unionized companies and there are limited data available depicting the views of spokesmen for the unions involved. These will be briefly reviewed.

Profit-Sharing Experience in Unionized Companies

Gross estimates of the incidence of profit-sharing plans in unionized establishments are provided by the BLS survey conducted in metropolitan areas of the United States between July 1964 and June 1966. 28/ These may be summarized as follows:

Per cent of Workers
Under Profit-Sharing Plans

All	Coverage by Labour-Management Agreements	
	Majority Covered	None or Minority Covered
Plant Workers	12	6
Office Workers	22	6

Among both plant and office workers, 6 per cent of those employed in plants in which a majority is covered by labour-management agreements are in companies with profit-sharing plans.

A review of plans in companies whose employees are covered by collective bargaining reveals that some have been in effect for long periods and are obviously successful from the viewpoints of both workers and management. Some of these are discussed by Metzger. 29/

Among the better known plans is the one introduced in 1940 by the American Velvet Company in Stonington, Connecticut, following agreement with a local of the Textile Workers Union of America. The secretary-treasurer of the local is quoted as having told a meeting of the Council of Profit-Sharing Industries in 1960:

...I feel that under profit-sharing our union is much stronger than a union without a profit-sharing plan. We understand not only our own problems, but the company's also. We have a better concept of economics knowing that productive efficiency can be increased whenever labour and management sincerely want to work together. 30/

On the other hand, some plans have not worked out. A prominent example was the "progress-sharing" plan established by American Motors and the UAW in 1961. This was hailed at the time as an important new development because it represented the first profit-sharing plan inaugurated through collective bargaining by a major company and a large and militant international union. However, despite some apparent success in the first year of operation, the plan failed to satisfy the needs and objectives of the parties and was drastically reduced in scope in the negotiations of 1964. It seems that while top leaders of the union supported the program it did not win similar acceptance at the local level in Kenosha and Milwaukee, where company plants are located. 31/

I.B. Helburn in an unpublished doctoral dissertation at the University of Wisconsin studies 210 profit-sharing plans in unionized companies. He reports on the role of the unions in the administration of these plans and the attitudes of union leaders towards them. As summarized by Metzger 32/, the findings were that union participation in the formulation and administration of plans was slight; and that most plans are not included in labour-management agreements. Nevertheless, a high proportion of union leaders express the view that the presence of a profit-sharing plan contributes towards better industrial relations than exist in companies without profit-sharing. In those instances where cash plans are in effect, half of the union officials who responded thought that profit-sharing

improved industrial relations; only one-quarter were of the same opinion in respect to deferred plans.

The overall impression conveyed by the Helburn study is that while the introduction of a profit-sharing plan is not likely to exert an overriding influence on collective bargaining it can, under certain conditions, operate to satisfy the respective interests of the parties; management's concern with improved productivity and the workers' interest in increased earnings, without threatening either the union as an institution or management rights.

REFERENCES

- 1/ Harold J. Leavitt, Managerial Psychology, An Introduction to Individuals, Groups and Industrial Organizations in Terms of Modern Psychology, (Chicago; University of Chicago Press, 1965), p. 215.
- 2/ It should be noted that Professor Leavitt, in the work just cited, identifies the Scanlon plan as a type of profit-sharing. He describes the typical arrangements under that plan as an application of the premise that workers have psychological needs growing out of their social relations. The mechanisms for cooperation among workers which are incorporated into plans such as the Scanlon or Rucker plant-wide incentives supply such needs.

However, describing such plans as falling under the general category of profit-sharing invites some confusion. In this study we have distinguished between plans which measure gains in terms of cost reductions either absolutely or relative to sales and those which utilize year-end profits as an index. While profit-sharing companies, in the latter sense, realize that the financial incentive must be supported by a panoply of devices which foster and induce cooperative behaviour, accomplishment of the latter faces the obstacle that the connection between individual effort and organizational success is less clearly discernible.
- 3/ National Trust, A Study of Profit-Sharing Plans in Canada, Toronto, December, 1965, p. 8.
- 4/ Robert B. McKersie, "Wage Payment Methods of the Future", British Journal of Industrial Relations, Volume 1, pp. 191-192.
- 5/ It will be recalled that the Dun and Bradstreet survey of profit-sharing in companies with fewer than 500 employees disclosed that cash plans predominated in small companies under 20 employees—no less than 71 per cent of the plans were of the cash type. (See Metzger, op. cit., p. 31.)
- 6/ National Trust, op. cit., p. 43. The five-year period is not specified, nor is the date of the study. The only clue is in the publication date, December, 1964.
- 7/ B.L. Metzger, Profit-Sharing in Perspective, (Evanston, Illinois, Profit Sharing Research Foundation, Second Edition, 1966), p. 125. The period covered by these figures is somewhat imprecise. The forms were asked to "indicate what the company profit-sharing contributions have averaged over the years".
- 8/ Wages and Related Benefits: Part II, Metropolitan Areas, United States and Regional Summaries, 1965-66, United States Department of Labor, Bureau of Labor Statistics, Bulletin Number 1465-86, May, 1967, p. 93.

2/ New York Times Magazine, October 15, 1961.

10/ The Dun and Bradstreet survey suggest that this estimate is too low. Even among very small firms of less than 20 employees, 3.9 per cent reported a profit-sharing plan—predominantly of the cash type. (See Metzger, op. cit., p. 26.)

11/ As expressed in an excerpt in Anthony Paterson's "Three Men Pushing Us All to Become Wealthy", Canada Month, May, 1967, p. 16.

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CHAPTER VI

SUMMARY AND CONCLUSIONS

In the opening paragraph of this study we pointed to heightened attention being focussed on wage payment systems and in the intervening discussion the reasons for this have been briefly sketched. We discussed the problems confronting the successful operation of individual and small group incentive plans. This has led to the substitution, in some cases, of day work systems incorporating general standards of output developed by engineering departments. But in others, the search for substitute incentive systems has induced some experimentation with productivity-sharing schemes. Profit-sharing as a plant-wide incentive arrangement has evoked particular interest and has shown an accelerating growth in the number of plans, a movement rather more pronounced in the United States than in Canada.

At the centre of all these currents of change and experimentation with novel and some not-so-novel payment systems has been the role of the trade unions and the institutions of collective bargaining. Unions have, in scattered instances, participated in the development of new approaches to solutions calculated to accommodate the drive for new technology. They have under a variety of strategic approaches, exchanged the power to restrain technological innovations for one or another concession. The United Mine Workers accepted higher hourly rates at the cost of huge displacement of miners by mechanized equipment. Similarly, Harry Bridges' Longshoremen lowered resistance to mechanization of the waterfront and to a more efficient structure of longshore crews in exchange for assurances against the loss of earnings through displacement for union members and particularly attractive terms for members who retire.

But these still represent adjustment to the inevitability of technological change fostered by entrepreneurial goals and drives. A Longshoremen's Union representative says the agreement was a good bargain because they were convinced the changes would come anyway, "...so the union decided to shake hands with the future and get something for it." 1/

However, we have also reviewed instances in which organized groups have entered into cooperative relationships which are based not only on the loosening of restrictions on technological progress, but on a deliberate effort to reduce cost in exchange for a promise of proportionate share in the resulting gains.

We have distinguished such cooperative arrangements from profit-sharing plans in which distribution of gains from increased productivity is not necessarily dependent on a measure of labour's contribution to productivity. To be sure, a well operated profit-sharing plan presupposes an effort to induce employee cooperation in promoting the profitability of the firm. But in this conception the management and owners are responsible for technological and production innovations; workers receive wages and benefits determined by and large by the market and by past practice; but supplements are added, contingent on the profitability of the enterprise.

It is the tentative conclusion of this study that the development under collective bargaining of a wage payment system which follows the latter principle is likely to be slow indeed. Profit-sharing will continue to expand; but primarily in non-unionized, small establishments which seek to enhance the tie between increased productivity and earnings or to provide pension benefits which are granted on a contingent cost basis and not as a fixed charge against the firm. Undoubtedly such plans will also expand in

larger firms but again primarily to provide retirement credits built up by employer contributions which fluctuate from year to year in accordance with profits, but which yield a fund enhanced by interest growth and capital gains. On the other hand, the prospect that under collective bargaining the bargained increase in wages and fringes will give way to increases made contingent on profits, appears slim. There is, similarly, no evidence on the horizon that governments, either in the United States or Canada, are prepared to promote such a system through legislation as part of a national incomes policy.

In principle, annual increase in money wages or earnings of labour which are made contingent on profits rather than imposed as fixed costs relieve pressure on prices. For this to occur, an organized work group must give up some or all of the increase which bargaining might yield in return for the opportunity to enjoy a more substantial real increase in earnings or benefits. To a minor extent such an exchange was implicit in the initial American Motors "Progress-sharing" plan developed by that company and the UAW. In years of zero profits or of losses, part of the benefit package was to be paid for out of the six cents per hour increase provided in the annual improvement factor. Milling is correct in arguing that this arrangement implies a gamble. Union leaders, even if they are prepared to gamble in this way, have not shown much success in convincing their members of its advantages. The original American Motors Plan was put into effect only after the most lukewarm ratification on the part of UAW members.

The union movement may be said to regard as an unworthy trade the relinquishment of its power to win annual increases, even if these vary in size over the business cycle, in exchange for a promise which becomes

contingent on profits. The size of profits is held to be under the control of managerial decision-makers. From the point of view of union leadership, to endorse such agreements is to assume obligations to the members without being able to control the conditions which determine whether the promises will be kept. Nor do they wish to be put in a position where they do have a voice in such outcomes. This would give them a share of responsibility for management which most unions reject.

Nor is it to be assumed for one moment that the managers and owners are prepared in any degree to share the responsibilities of management with union officials. The key to profit-sharing success is regarded as worker enthusiasm and involvement, but always under management control. A small minority of plans are spelled out in labour-management agreements, but almost all plans provide for discontinuance at the discretion of the Board of Directors. The strengthened management rights clause that was part of the American Motors "Progress-sharing" plan was regarded by the management as one of its important gains.

Unions have entered into agreements which make earnings depend in some part on gains in productivity or on profits. But, clearly, these have occurred in units on the fringes of larger bargaining complexes, where the latter set the patterns or the benchmarks against which gains above pattern can be measured. What is possible for Kaiser Steel has apparently not been equally possible in the major steel companies.

Journalistic trial balloons which see resort to profit-sharing as a technique for overcoming the cyclical phenomenon of wage rate increases outrunning productivity are based on thin evidence. This consists of the

several long standing profit-sharing plans operated in a collective bargaining environment, such as the plan of American Velvet and the Textile Workers; the several productivity-sharing plans; and the pronouncements of Walter Reuther. While, in theory, a profit-sharing plan can effect a more congruous movement over time in the relationship of wage increases and productivity increases, implementation confronts great obstacles. As we have seen, the statement of the UAW on equity-sharing offers no clear support for the view that the union is prepared in negotiations to forego increases in wages and benefits which are reasonable objectives in light of the profit record of the immediate past and the near term prospect.

The UAW proposes to start at that point and then to share future equities. One cannot, of course, be absolutely certain on this point—if profit-sharing were to enter as part of serious bargaining in the industry, it is conceivable that exchanges of the kind postulated might occur. In any event, the issue has been closed for the period of the new contracts. Moreover, it is even more remote as a prospective issue in bargaining in the Canadian branches of the industry.

An additional obstacle confronts a union in promoting reliance on profits as contingent sources of increases in wages. In as much as the net profits of firms will vary over a range in any year and will certainly be distributed differently in successive years, equality of earnings of members in different locals is likely to be shattered; or else, to achieve uniform profit shares, rates of profit allocated to union members would have to vary among firms. Moreover, some firms will earn zero profits or incur deficits.

It is clear that any widespread use of this technique as a substitute for an incomes policy would lead to more or less substantial distortions

in wage structure. An incomes policy attempts to constrain average increases in wage rates over major sectors of the economy within limits set by overall increases in productivity. Within such general changes it is contemplated that labour market forces will produce larger increases in wage rates in occupations in short supply where it is necessary to induce occupational or geographical shifting of labour resources—but not in accordance with the specific productivity experience of the firm.

In principle, if profit-sharing is to perform the function of an incomes policy it would require generalized tax and transfer mechanisms which would shift a portion of profits at cyclical peaks to employees without introducing differentials in wage incomes growing out of variations in profitability of firms. However, this approach would nullify the chief arguments in favour of profit-sharing. It would remove the incentive for increased productivity and harmonious industrial relations which the promise of a share in profits is intended to provide.

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APPENDIX

ADAPTATIONS ET INNOVATIONS DANS LES REGIMES DE REMUNERATION AU CANADA

RESUME

CHAPITRE I

La présente étude a pour objet les adaptations, modifications et innovations que les employeurs et les syndicats ont apportées aux régimes de rémunération à la suite des pressions économiques de l'après-guerre. Les employeurs cherchent des régimes de rémunération qui leur font gagner le plus possible sur les dépenses au titre des salaires; les syndicats, pour leur part, s'efforcent d'obtenir les salaires les plus élevés possible tout en protégeant leurs adhérents contre les effets de l'évolution technologique.

Bien que tous les systèmes de rémunération offrent un stimulant financier en contrepartie d'une prestation de travail, il est par définition difficile de mesurer la quantité de travail que l'on peut faire en une heure. Les théories différentes qui existent sur le rapport entre le stimulant financier et l'énergie dépensée pour le travail a donné naissance à un large éventail de régimes de traitements. Nous examinerons quelques systèmes classiques dans le chapitre suivant.

CHAPITRE II

Primes individuelles et collectives de rendement

La rémunération est liée au rendement calculé soit selon le nombre de pièces fabriquées, soit, pour éviter le ralentissement de la production que provoque la réévaluation fréquente des salaires aux pièces, selon des normes de production horaire. Certains régimes plus complexes ont recours à des formules qui se traduisent par des augmentations variables de la rémunération pour des rendements supérieurs.

S'il est parfois possible de prouver que l'adoption de systèmes d'intéressement a fait monter la productivité, l'évolution technologique a mis en question la viabilité des régimes d'intéressement au rendement.

Extension du régime d'intéressement

Si l'on compare le Canada et les Etats-Unis, on s'aperçoit que les régimes d'intéressement au rendement sont moins répandus dans le premier pays que dans le second. D'après les statistiques, 16 p. 100 de la population active travaille dans ces conditions au Canada, alors qu'en 1958, le pourcentage était d'environ 30 p. 100 aux Etats-Unis. Au Canada, ces systèmes se répartissent à peu près également entre les sociétés qui ont conclu des conventions collectives et les autres.

Substitution de la rémunération journalière au régime d'intéressement

Le rapport décrit la suppression d'un régime d'intéressement au rendement dans les usines d'Hamilton de la Westinghouse du Canada. Le syndicat

des Ouvriers unis de l'électricité, qui représente les employés, a accepté la suppression de ce système à condition que cela n'entraîne pour personne une réduction de salaire, ce que la société a promis.

L'assimilation des postes anciennement payés au rendement à une nouvelle échelle unique de salaires prend un certain temps. Il arrive fréquemment que des employés faisant le même travail sont payés à des taux différents mais, peu à peu, les taux encerclés de rouge diminuent en nombre et en proportion. Par ailleurs, la baisse de productivité d'au moins 20 p. 100 qu'on avait prédite n'a pas eu lieu.

Il est devenu évident que les travailleurs n'abandonneront pas sans compensations des systèmes de rémunération qui leur assurent des revenus élevés et encourageants.

Statut de salariés pour les ouvriers employés à la fabrication

Ne plus payer les employés à l'heure mais à la semaine constitue une autre façon d'accroître la motivation car on rend le travailleur responsable de son rendement. La rétribution fixe des ouvriers qui travaillent à la fabrication pourrait permettre une utilisation plus souple de la main-d'œuvre, mais coûterait plus cher à l'employeur.

Si "l'International Union, United Automobile Aerospace and Agricultural Implement Workers of America" (Union internationale d'Amérique des travailleurs de l'automobile, de l'aéronautique et des instruments aratoires) a fait des efforts pour assurer à ses membres un statut de salarié, ce point ne figure pas toujours au nombre des objectifs des principaux syndicats. Selon une étude du National Industrial Conference Board, le régime du salaire

fixe, quand il est accordé, est généralement réservé aux ouvriers d'usine qui travaillent en contact étroit avec des ingénieurs professionnels ou aux employés de bureau. Un autre élément qui incite les sociétés à assujettir les travailleurs au régime du salaire fixe, c'est l'espoir que ce régime leur ôtera l'envie d'adhérer aux unités de négociation.

En 1966, en accord avec deux unités syndicales locales, The Aluminium Company of Canada a adopté un système de rétribution hebdomadaire dans son usine de Kingston, en Ontario; la société souligne d'ailleurs que cette innovation s'inscrit dans le cadre d'un programme destiné à augmenter le rendement des ouvriers.

Autres cas de traitements hebdomadaires ou mensuels garantis

Si l'on étudie les conventions collectives déposées à la Direction de la négociation collective du ministère du Travail du Canada, on s'aperçoit qu'un petit nombre de contrats comportent diverses garanties de traitement. Parmi les conventions qui entrent dans cette catégorie, on compte: The Fisheries Association of British Columbia, l'Union des pêcheurs et travailleurs assimilés unis (United Fisherman and Allied Workers' Union); La Brasserie Molson du Québec et l'Association des employés de la Brasserie Molson; Continental Can et les Métallurgistes unis (United Steelworkers); la Metropolitan Corporation of Greater Winnipeg et le Syndicat uni du transport (Amalgamated Transit Union).

CHAPITRE III

Partage des avantages découlant de l'accroissement de la productivité

Aux Etats-Unis comme au Canada, les syndicats semblent s'accorder sur le fait que l'accroissement de la productivité est important car il procure un niveau de vie plus élevé. Pour eux, pourtant, dans la mesure où cet accroissement dépend de l'évolution technologique, et dans la mesure où cette dernière entraîne bien souvent la mise à pied de la main-d'œuvre, pendant les négociations collectives, les syndicats devraient tendre à atténuer les effets de l'évolution technologique. Par l'examen de diverses conventions collectives, on cherche à déterminer dans quelle mesure les syndicats ont pu faire accepter des clauses qui protègent leurs adhérents contre les effets indésirables de cette évolution.

Il ressort de l'étude de plus de mille conventions collectives conclues récemment et déposées à la Direction de la recherche du ministère du Travail d'Ontario, que 31 p. 100 d'entre elles renferment des dispositions portant sur les effets de l'évolution technologique. Ces conventions couvrent environ 68 p. 100 des 218,000 travailleurs à la production visés par l'étude.

Celle-ci ne traduit pourtant pas une tendance généralisée à incorporer dans les conventions collectives des régimes ou des clauses de participation aux bénéfices dus à l'accroissement de la productivité. Plusieurs régimes de ce genre, répandus aux Etats-Unis, sont étudiés.

Régimes d'intéressement à l'échelle de l'usine

Les régimes d'intéressement Scanlon et Rucker, qui s'étendent à toute l'usine, cherchent à mobiliser le potentiel productif des employés en

combinant l'attrait pécuniaire et un cadre de travail qui éveille l'intérêt de l'employé pour l'entreprise.

Bien qu'organisés différemment, les deux régimes visent à faire profiter la société et le travailleur des bénéfices qui résultent de la réduction du coût de fabrication. Tous deux font aussi appel à des formules qui établissent un rapport entre les frais de personnel et la valeur marchande de la production pour une période de base déterminée. Les travailleurs reçoivent tous des primes mensuelles quand le rapport prix de revient-prix de vente de la production est inférieur à la norme établie. Dans les deux régimes, des comités mixtes de patrons-employés ont été créés et chargés de formuler des propositions en vue de réduire le prix de revient.

Convention Kaiser et convention des débardeurs (Longshoring Agreement)

La Kaiser Steel Corporation et une unité locale des United Steelworkers of America (Métallurgistes unis d'Amérique) ont mis au point le régime d'intéressement à long terme, qui peut être défini comme un plan de participation aux bénéfices ou de participation à la productivité.

La Pacific Maritime Association et la Longshoremen's and Warehousemen's Union ont conclu un accord aux termes duquel l'employeur a accepté de créer un fonds destiné à garantir un salaire minimum pour les membres du syndicat en échange de la suppression de certaines restrictions qui avaient été faites concernant la libre disposition du matériel et des hommes.

Dans notre pays, il n'existe rien d'équivalent à la convention Kaiser, mais des dispositions assez comparables à celles du Longshore Agreement ont été adoptées sur la côte ouest du Canada.

Les programmes qui intéressent les employés au développement de la productivité, bien que plus nombreux aux Etats-Unis qu'au Canada, ne sont pas encore caractéristiques et loin d'être fréquents. On attribue généralement à la direction la responsabilité des activités destinées à accroître la productivité, alors que les travailleurs exercent des pressions pour atténuer les effets de l'évolution sur leur statut.

CHAPITRE IV

Participation aux bénéfices

En vertu de ce régime, l'employeur s'engage à majorer le salaire d'un employé d'un certain montant déterminé en fonction des bénéfices de la société. Ce régime peut être considéré sous deux rapports: c'est d'abord un système d'intéressement destiné à donner aux employés une motivation grâce à la création d'un climat dans lequel ils sentent qu'ils font partie d'une grande organisation et dans lequel les conflits entre la direction et les employés sont moins importants puisque les deux groupes contribuent à la réussite économique de l'entreprise.

On peut aussi mettre l'accent sur les éléments de la participation qui font dépendre les revenus supplémentaires de l'importance des bénéfices. Dans cette optique, la participation est un moyen utilisé pour atténuer les effets de la course entre les salaires et la productivité lorsque le marché du travail offre des possibilités restreintes. L'amélioration des revenus des employés vient d'un partage aléatoire des bénéfices et non d'une majoration des taux horaires.

Aux Etats-Unis et au Canada, ces systèmes de rémunération se sont largement développés, mais moins cependant au Canada qu'aux Etats-Unis.

Aux Etats-Unis, ce sont surtout les systèmes de distribution à paiement différé qui se sont développés, mais les systèmes de paiement immédiats sont plus courants dans les petites entreprises. Les partisans de ce dernier système soutiennent qu'au Canada, des dispositions fiscales moins avantageuses pour le système de paiement différé ont freiné son essor. La section canadienne du Conseil des industries de participation aux bénéfices a demandé au gouvernement d'adopter une attitude plus libérale en faveur de la participation aux bénéfices.

CHAPITRE V

Conséquences et perspectives de la participation aux bénéfices

Il est difficile de déterminer dans quelle mesure le partage des bénéfices encourage vraiment à produire davantage. Il n'est en effet pas facile de faire la distinction entre les effets du partage des bénéfices, la gestion d'une direction compétente et les changements dans les conditions du marché.

Partage des bénéfices sur décret en France

Au cours de l'été 1967, on a adopté en France un programme faisant appel à l'appareil fiscal du gouvernement pour encourager sur une grande échelle la possession de capitaux et la diminution des conflits de travail. Ce plan s'appliquerait aux sociétés ayant un effectif de plus de cent travailleurs, quoique les plus petites entreprises puissent y adhérer volontairement. L'idée de base, c'est que, après avoir mis de côté l'équivalent d'un bénéfice de 5 p. 100 sur leur capital, les sociétés verseront la moitié du reste dans un fonds crédité à leurs employés. Ce plan comporte donc la

distribution d'une partie des bénéfices, tout en incitant les sociétés à investir et les travailleurs à épargner davantage.

A première vue, il n'est pas assuré que les syndicats acceptent la politique de partage des bénéfices comme politique de lutte contre l'inflation des revenus. Au Canada surtout, les syndicats n'y semblent pas du tout favorables. On possède néanmoins la preuve que, dans certains cas, ce système a fonctionné à la satisfaction des deux parties.

La section canadienne du Conseil des industries de participation aux bénéfices a proposé d'envisager le partage des bénéfices non seulement comme une formule qui permet aux travailleurs à la retraite de toucher un revenu, mais aussi comme une solution de rechange au système actuel de rémunération, solution qui permettrait aux travailleurs d'accéder à la propriété de l'entreprise et de profiter de l'accroissement de la productivité dû à leur travail et au capital investi.

RECAPITULATION ET CONCLUSION

On peut peut-être dire, pour conclure cette étude sur les systèmes d'intéressement que, si le régime du partage des bénéfices est appelé à se développer, il se limitera aux entreprises non syndiquées ou de faible envergure, qui cherchent à resserrer les liens qui existent entre l'augmentation de la productivité et les traitements. Rien ne permet de croire, ni aux Etats-Unis, ni au Canada, que les gouvernements encourageront une politique des revenus nationaux qui mettra l'accent sur une augmentation des salaires liée aux bénéfices, de préférence au système actuellement en vigueur, qui consiste à négocier pour obtenir des salaires et des avantages sociaux plus élevés.

Les syndicats se montrent assez peu disposés à abandonner leur droit de négocier pour une promesse de salaires plus élevés et liés aux bénéfices.

N O T E S

